

Cranfield University

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Petty commodity production and the role of finance:

A case study of micro-enterprises in Cato Crest,

a squatter community in Durban, South Africa

School of Management

PhD Thesis

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Supervisor: Professor Malcolm Harper

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Abstract

Finance plays a major role in influencing micro-enterprises and any process of change they undergo. This research provides both a study of such a process and an understanding of how finance and micro-enterprises relate within the context of the wider economy.

The thesis is the product of fourteen months field research in the squatter community of Cato Crest, Durban, South Africa. A sample of 138 mainly retail micro-enterprises was studied using a variety of techniques, including semi-structured interviews and occupational biographies.

Three categories of enterprise were developed based on current literature; capitalist, petty commodity production (PCP) and survival. The research then sought to operationalise them. It was found that between 18% and 29% of each group either changed into one of the other categories or ceased to operate during the period.

The process however is not one of inevitable growth into capitalist enterprises. A dynamic process of growth and decline was observed during the research period and in the occupational biographies. Therefore while there was some growth in capitalist enterprises the main finding was that petty commodity production was conserved through the growth in aggregate numbers of PCP enterprises.

Having identified the process of change five types of finance that played a role in Cato Crest were identified; external finance, waged employment, own finance, finance reducing measures (including partnerships) and hire purchase. The influence of each was as follows:

- External finance from the banks and suppliers was not available to most micro-enterprises.
- Full time waged employment by the owner or another household member was associated with the process of growth in micro-enterprises. In contrast the lack of such employment was associated with the perpetuation of survival enterprises or their cessation. The implication is that those who are marginalised or excluded from full time waged employment are likely to be excluded from owning micro-enterprises that grow.
- Own finance through the use of stokvels, bank accounts and the re-investment of profit were all identified as important components in the growth of micro-enterprises. In all three cases they provided both a mechanism to save both directly and indirectly for investment purposes in the enterprise. However savings institutions need to be seen in the context of the wider economy in which they act as a channel for outflows of finance from the micro-enterprise sector to the formal capitalist sector. This is a net outflow since there is no corresponding lending of finance from the banking sector to micro-enterprises.
- Finance reducing measures were observed to be important in the process of change. However it would appear that survival enterprises, which were often limited in their access to other financial options, were often perpetuated by the use of such measures.
- Finally hire purchase was identified as being associated with the growth of micro-enterprises. However its key role was not the provision of finance, but as a means for the capitalist sector to extend the sale of certain of its products into new areas of the economy.

In summary the thesis is important in terms of the development and operationalisation of the three classifications of retail micro-enterprises, the identification of the role of finance in the process of change and the linkages between finance and the capitalist economy within which retail micro-enterprises operate.

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Glossary

ANC	African National Congress.
Amaguinia	Small doughnuts without sugar.
CBD	Central Business District in Durban.
CMDA	Cato Manor Development Association.
DFR	Durban Functional Region.
GDP	Gross Domestic Product.
IFP	Inkatha Freedom Party.
Informal settlement	Name for a settlement which has not been officially designated by the government as a residential area.
Lay-by	Scheme for paying for goods whereby the goods are not collected from the shop until they have been paid for in full.
Market	Refers to the 'Indian' or Victoria Street market in Durban.
Rand	South African unit of currency. In 1995 the exchange rate was approximately £1 sterling = Rand 5.5.
Sangoma	Local herbalist (often also a spiritualist).
Spaza	Local grocery store.
Shebeen	Local drinking house or bottle store.
Stokvel	Informal saving association typically where members group together to save.
Table	Term to describe type of enterprise run from a small table either in town or by the road.
Taxi	Name given to vans used to taxi people from settlements to town.
TNC	Transnational corporation
Town (in)	Durban.
Township	Term to describe a formal settlement in South Africa.

1. Introduction

'And all of them were caught in something larger than themselves. Some of them hated the mathematics that drove them, and some were afraid, and some worshipped the mathematics because it provided a refuge from thought and from feeling. If a bank or a finance company owned the land, the owner man said: The Bank - or the Company - needs - wants - insists - must have - as though the Bank or the Company were a monster, with thoughts and feelings, which had ensnared them. These last would take no responsibility for the banks or the companies because they were men and slaves, while the banks were machines and masters all at the same time.....When the monster stops growing, it dies. It can't stay one size.'

(Steinbeck *'The Grapes of Wrath'* 1939:34,36)

1.1 Background

Micro-enterprises which are defined in this thesis in terms of size (Chapter 2) are not a new phenomenon, but over the last twenty years have attracted a great deal of interest from both practitioners and academics (Kasarda & Crenshaw 1991). Research into micro-enterprises has concentrated on a variety of aspects including finance, the significance of the sector within the economy, government policy and their development (Levitsky 1989). At the same time governments and organisations have sought to develop and support this sector through various means (Timberg 1989). As Otero and Rhyne write:

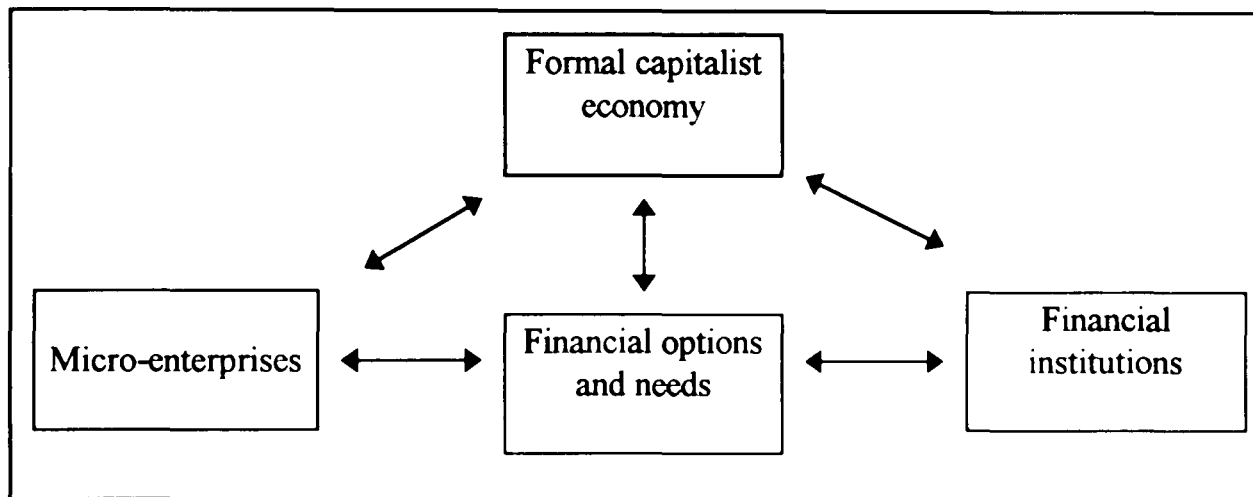
'For increasing numbers of poor people, micro-enterprises are a source of income and employment where no other alternatives are available. Millions of people in developing countries produce a wide diversity of goods in makeshift shops or engage in small trading and retailing activities. They bang out pots and pans from scrap metal, make mops and brooms, shape pieces of furniture, or sell fruits and vegetables. In urban areas, a growing percentage of the working population - sometimes as high as 50 per cent - is engaged in microenterprise activity.' (1994:1)

The reasons for this interest are diverse, but fundamentally revolve around the importance such enterprises play in terms of employment and the provision of services in the rural and, particularly, the urban economies of the developing world (ILO 1972, Livingstone 1991). One of the results of the rapid urbanisation of cities has been the dramatic growth in the number of micro-enterprises (Sethuraman 1981). These, while appearing to be separate from the modern or capitalist economy, are closely linked to the wider national and international economy that surrounds such activities. South Africa provides an example of such a situation where a well developed modern capitalist economy operates in urban areas alongside a large number of micro-enterprises.

1.2 Research rationale

The present research seeks to fill a gap in the knowledge of micro-enterprises. It examines the process of change in micro-enterprises and the role of financial options and needs, the financial institutions and how they each relate to the wider capitalist economy. Figure 1.1 illustrates these four relationships.

Figure 1.1 Relationship between finance and micro-enterprises



Each of these areas has been studied individually, but there has been no research on how they combine and particularly the impact of financial needs and options on the process of growth and/or decline in micro-enterprises at the enterprise level.

The study is part exploratory in the sense of investigating how micro-enterprises change and part explanatory in seeking to relate such changes to financial options and needs and the role of the wider economy and financial institutions.

South Africa is in a transitional stage between a political and economic system created by apartheid and a more multi-racial society. National elections in April 1994 resulted in the first democratically elected government. The country has since begun a process of change as the laws of apartheid are repealed and the affects of apartheid on society and the economy are attended to. However the challenges the country faces are enormous and one of the most pressing revolves around the issue of employment.

South Africa is faced with a growing population and large sections of its society who were previously disenfranchised are now at last part of the political process (Wilson and Ramphela 1989). However people need employment and the problem is that the South African economy, a product both of apartheid and the international economy it is part of, is unable to provide that employment (Hirschowitz and Orkin 1994).

During the last decade, when the economically active population grew by over 3 million, formal capitalist employment during the same period grew by only 300,000 (Bethlehem 1991). Measuring unemployment levels is rather problematic¹, but official statistics indicate

¹ Statistics in South Africa tended to keep the former bantustans separate, registered unemployment was often grossly underreported and population data was inaccurate.

unemployment at 29% and that, specifically, 37% of the economically active black population is unemployed (CSS 1994).

The explanation for this limited growth in employment is found by an examination of the large capitalist sector which dominates the South African economy (Lipton 1986). This is structurally unable to provide sufficient employment for the growing population. The South African economy and in particular the manufacturing sector, have been demonstrating signs of stagnation for some time. Average annual GDP growth fell from 5.8% in the 1960s to 3.4% in the 1970s and 1.1% in the 1980s (Riley 1993). However it is not only the decline in the level of economic growth which has contributed to the shrinking labour absorption capacity of the capitalist sector of the economy (Coetzee 1991); the capital intensive nature of the South African economy has meant that employment has consistently lagged behind GDP growth rates (Bethlehem 1991).

In an economy characterised by rapid population growth and urbanisation and in which the capitalist sector is structurally unable to create sufficient jobs, people are forced to look for alternative employment opportunities. One of the main alternatives is to start up a micro-enterprise in the so called 'informal sector'. There is some debate as to the level of such employment in South Africa, but Kirsten (1991), from a combining of various surveys, estimates that overall 23% of the total economically active population is in informal employment and that it absorbs 39% of those living in urban areas.

1.3 Research justification

Micro-enterprises are increasingly seen to be a permanent source of employment and income for a large proportion of the urban population of both South Africa (Nattrass 1990b) and other developing countries (Livingstone 1991). This thesis contributes to knowledge in the following areas:

1.3.1 The process of conservation and dissolution of petty commodity production

The concept of petty commodity production (PCP) is recognised as an alternative framework for examining micro-enterprises and is a method of understanding micro-enterprises which allows the linkages and relationships with the wider economy to be incorporated (Moser 1978). Research has focused on linkages between petty commodity production and the capitalist sector, but has tended to neglect the role of finance by limiting it to customer credit (Bromley 1982). Secondly the process of change to and from petty commodity production has only been explored at the theoretical and macro level (McGee 1979). This research seeks to explore the process of growth or decline between PCP enterprises and capitalist and survival enterprises and to improve the understanding of how financial needs and options are associated with such a process. It does not claim that financial needs and options explain the whole process, but rather that they do play a role in that process.

1.3.2 Methodology of petty commodity production

Petty commodity production is a theoretical concept that while providing a useful framework for analysis does not lend itself easily to field use. It relates to very abstract concepts which while

theoretically sound tend to have been rather imprecisely defined in practice. This thesis therefore seeks to operationalise these terms into meaningful and usable terms from both the theoretical and methodological perspectives.

1.3.3 The role of finance

This thesis recognises that other variables influence the process of change in micro-enterprises including management (Harper 1984) type of enterprise (Schmitz 1982a) and government policy (De Soto 1987). Therefore while the role of finance would appear to be important it needs to be seen in the context of the influence of other variables. Research into the role of finance has tended to focus on trade and formal credit (Meyer 1989a). This thesis takes a broader view of finance and incorporates both own finance, savings, reinvested profits and different forms of institutional credit into a study of how finance impacts on micro-enterprises. In addition the research seeks to identify and quantify the role of hire purchase as a form of micro-enterprise finance. Studies of this type of finance to date have been limited to small and medium enterprises and it has been sadly ignored in studies of micro-enterprises (Tomkins et al 1979, Mayes et al 1988, Reynolds 1995); this research breaks new ground by describing the role of hire purchase in terms of its impact on micro-enterprises and its linkages with the wider economy.

1.3.4. The financial linkages between PCP enterprises and the capitalist sector.

Using a petty commodity production framework this research has identified a variety of different linkages between PCP and the capitalist sector. The focus has been on the subordination of micro-enterprises to the capitalist sector. Following this theme the thesis examines the role of finance in such linkages; in particular three linkages are identified involving hire purchase, bank savings facilities and formal employment. These have not been investigated in the literature to date and all provide valuable insights into the workings of the whole economy and the relationship between the capitalist sector and micro-enterprises.

1.4 Objectives of the research

The purpose of this research is to study whether the financial needs and the options available to micro-enterprise owners are associated with the growth or decline in capitalist, PCP and survival enterprises. This involves the identification of these three categories, a study over time to identify whether growth or decline has occurred and an examination of the various financial options and needs of micro-enterprise owners. The research is based on a study of micro-enterprises in the Cato Crest squatter community in Durban, South Africa. It involved semi-structured and structured interviews with 138 micro-enterprise owners, thirty stokvels and twelve hire purchase providers as well as more detailed semi-structured interviews and occupational biographies of forty five and twelve micro-enterprise owners respectively over a fourteen month period of field research.

The research objectives can therefore be summarised as follows. These have not been listed in order of importance, but rather in the sequence they were dealt with.

1. To establish clear and usable definitions within the micro-enterprise sector in Cato Crest for the three categories; capitalist enterprises, PCP enterprises and survival enterprises.

2. To identify the process of growth or decline between these three categories of micro-enterprises and its cumulative affect on the process of conservation and dissolution of petty commodity production.
3. To identify the various financial needs and options available to micro-enterprises in Cato Crest and to determine the extent to which they are associated with the process of growth or decline.
4. In relation to the financial needs and options already established to identify any linkages between the formal capitalist sector and these micro-enterprises.

1.5 Location of the research

The research is based on fourteen months field research in Cato Crest, a squatter community in central Durban. The field site was changed from Amoati, the original site, due to violence in this area, but as Chapter 4 shows Cato Crest appears to be similar to other informal settlements in the Durban area.

The research is also important in terms of understanding the role of micro-enterprises throughout the world. While the history of South Africa is unusual its economy, in which a relatively large modern capitalist economy operates alongside a non-capitalist or marginalised sector, is not unrepresentative of other economies in developing world. Although in each country the size of the capitalist economy may vary the findings of this research are still relevant.

1.6 Structure of the thesis

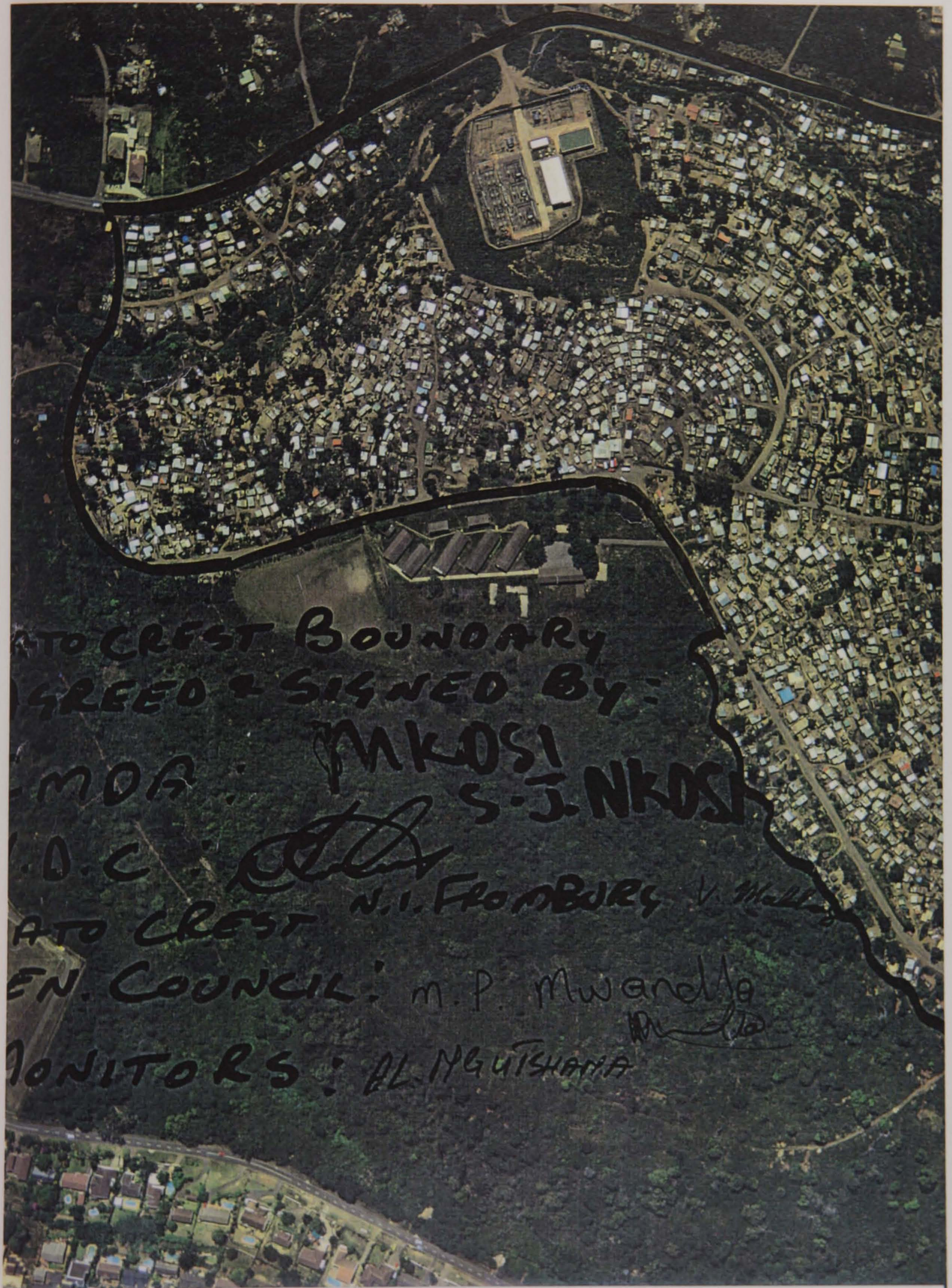
This thesis is presented in eleven chapters each representing a different aspect of the research process and findings.

Chapter 2 reviews international and South African literature on micro-enterprises, on the concept of petty commodity production and various aspects of finance both in terms of financial needs of micro-enterprises and the various financial options open to them. It concludes with the development of four hypotheses about how these financial needs and options affect various aspects of petty commodity production.

Chapter 3 reviews the methodology of the field work. It starts with operationalisation of the terms developed in Chapter 2, in particular those relating to petty commodity production. The various techniques used in the field work are then examined and it concludes with a review of the various risks and assumptions involved with such a methodological approach.

Chapter 4 provides a description of Cato Crest squatter community and a comparison of its socio-economic status with other informal settlements in the DFR. It then reviews the field work and its various stages.

Chapters 5 to 10 provide an analysis of the various dimensions of the research in testing the four hypotheses which were developed and operationalised in Chapters 2 and 3. Chapter 5 identifies the process of change associated with the growth and decline in micro-enterprises and the possible role of financial needs and options in that process (Hypothesis one). Chapters 6 to 10 analyse in more detail the various financial needs and options and how they are associated with this process of change.





Chapter 6 focuses on the role of external finance and in addition examines its role in leading to the marginalisation of some micro-enterprises (Hypotheses one and two). Chapter 7 examines the role of waged employment (Hypothesis one). Chapter 8 examines the role of own finance and in particular the relationship of savings institutions used by micro-enterprises to the formal capitalist economy (Hypotheses one and four). Chapter 9 reviews the role of various finance reducing measures and partnership (Hypothesis one). Finally Chapter 10 reviews the role of hire purchase and particularly its role in relation to the formal capitalist economy (Hypotheses one and four).

Chapter 11 summarises the findings of the research in four sections. It examines the four hypotheses that have been analysed in Chapters 5 to 10. It then reviews the contribution to knowledge in terms of micro-enterprise development and micro-enterprise research methodologies. Finally it provides a brief indication of the relevance of the research to South Africa and its attempts to develop micro-enterprises.

2. Literature review

'Cursed is the ground because of you; through painful toil you will eat of it all the days of your life....By the sweat of your brow you will eat your food until you return to the ground, since from it you were taken; for dust you are and to dust you will return.'

(Genesis 3:17,19, NIV)

2.1 Introduction

The following chapter reviews the relevant current literature in four areas :

1. The informal sector as it relates to micro-enterprises.
2. Financial needs of and options available to micro-enterprises.
3. Finance and petty commodity production.
4. The role of finance institutions.

The first section reviews the international and South African debate on the informal sector petty commodity production, the size of the sector and the role of micro-enterprises in South Africa. While this has been extensively studied, it is important to understand and define the terms and in particular how they relate to the South African context (Rogerson 1994a). From this first section it becomes clear that a petty commodity production approach is the most appropriate form of analysis of the South African informal sector and the micro-enterprises that operate within it. The next three sections explore the financial needs and options of micro-enterprises, the relationship between finance and petty commodity production and the role of finance institutions. In these last two sections a number of hypotheses are developed in order to address the research objectives. Chapters 5 to 10 seek to test their relevance to a squatter community in Durban, South Africa.

2.2 Micro-enterprise sector in developing countries

Micro-enterprises vary in terms of type, sector, employment and motives (Strassman 1987). The BMI (1992) identified the following as the main areas of micro-enterprise operation in South Africa; transportation of people, retail via a spaza or shebeen, vegetable selling, hawking, clothes selling, traditional healing, building contracting, agricultural production, welding, hairdressing, transport of goods, baby minding, cobblers, electrician, multi-selling, other crafts, and beer brewing. Given this heterogeneity it is necessary to define the term.

2.2.1 Definition of micro-enterprises

There has been much debate as to how micro-enterprises should be defined. Yankson identifies some of the parameters and characteristics in writing:

'The enterprise is small in terms of the size of its work force; it uses mainly labour intensive methods in its operation and it has relatively little capital investment that produces in small quantities and, as a result, each enterprise controls only a share of the market. In most cases, management, marketing and all other entrepreneurial functions are vested only in the proprietor or the operator' (1991:20).

Harper (1984) identifies five possible ways of possibly defining businesses in terms of employment, value of capital, sales, value added and qualitative terms, but suggests the clearest way is in terms of numbers employed. Livingstone (1984:12) has developed this further by suggesting four broad categories:

1. micro-enterprises employing between 1 and 9 people.
2. small businesses employing between 10 and 49 people.
3. medium businesses employing between 50 and 100 people.
4. large businesses employing over 100 people.

However this is a very arbitrary guide² and as Harper ³ (1984) points out the size of a business need only be defined in relation to a specific purpose. The author therefore feels that the USAID (1989) definition should be used which identifies a micro-enterprise as one that:

1. involves ten or fewer full time workers
2. relies mostly on cash transactions, informal credit markets and supplier credit
3. utilises simple forms of technical knowledge and follows basic production/management processes
4. provides products and services which are generally simple and unsophisticated in a market which is principally orientated towards low income groups
5. serves localised markets through simple marketing channels
6. operates within an intensely competitive environment due to ease of entry and localised market areas.

Hence for the purpose of this research the above definition has been utilised with one modification based on the author's experience of the South African micro-enterprise sector; namely that a micro-enterprise is an enterprise in which one to four people work.

It has been debated whether the terms 'informal sector' and 'micro-enterprise' are synonymous since as Ngwira (1995) writes there is little relation between legalistic underpinnings and size. This debate has been due in part to the need to make a further distinction between micro-enterprises and survival enterprises (Farbman and Lessik 1989). However, while micro-enterprises are theoretically only a sub-sector of the informal sector the nature of this research within the South African context enables these two terms to be treated synonymously.

² It is very difficult to measure numbers accurately due to factors such as the use of part time work and seasonal work of employees.

³ Harper writes 'The scale of a business needs only to be defined for a specific purpose, and there is no point in attempting to produce a universally or even a nationally acceptable standard. Any discussion of definition should be preceded by a very clear understanding of the purpose for which the definition is to be used.' (1984:2).

2.2.2 The size and growth of the informal sector

Given the different forms the sector can take it is impossible to be anything other than country specific in estimating its size. However from international experience a number of broad conclusions can be made. Firstly, it would seem to be the case that between 20% and 70% of the urban working population work there (Mazumdar 1976). Secondly, it is a growing sector (House et al 1993, Sanyal 1991). Thirdly, its growth has coincided with the rapid urbanisation experienced by many developing countries (Drakakis-Smith 1990, House 1984, Simon 1984), although it is interesting to note that it is not the natural resort of recent migrants (Sanyal 1991). Finally, the failure of industry to provide employment and the cyclical nature of the global, and hence national, economy has meant that the growing population, particularly in urban areas, has no other employment option (Drakakis-Smith 1990, Simon and Birch 1992, Snyam 1990).

As has already been mentioned, a number of specific types of enterprises can be discerned within the sector, the main sectors being trade, service, commerce and transport (Mazumdar 1976).

While the literature has concentrated on the manufacturing sector (Chuta and Leidholm 1985, Anderson 1982, Hailey 1991 and Schmitz 1982b, Aryee 1981) the main informal sector activity in terms of numbers of enterprises are those concerned with the provision of goods and services⁴ (Livingstone 1984). This, as the next section shows is even more pronounced in South Africa.

Manufacturing has tended to attract interest since it has greater potential for evolutionary growth. While some view the development of small firms as part of an inevitable historical process⁵ (Anderson 1982) others are more sceptical (Mead 1994). Livingstone, in looking at Kenya, writes:

‘The overwhelming predominance of very small enterprises suggests that very few enterprises are able to grow sufficiently to be able to transform themselves into small factory enterprises’ (1984:13).

There therefore seems to be general agreement that the informal sector as a whole is only capable of involutionary⁶ growth. Growth in size therefore can only be at the expense of lower incomes for such activities or as a result of economic growth.

Growth takes place via numbers and not the size of individual micro-enterprises. However, despite this limited growth potential, many of these activities generate a higher rate of return than those in the formal sector, suggesting both higher levels of efficiency and the chance of capital accumulation; but again there is a wide spectrum of activities and performance making generalisations difficult (Tokman 1989).

⁴ ‘The dominance of the trade and service sectors within the informal sector is general, not just a Kenyan phenomenon..’ and in reviewing other studies he finds ‘all confirm that the sector is largely made up of traders and suppliers of services’ Livingstone (1984:11).

⁵ Anderson used historical data to show a progression from household to small workshop to larger scale production. While he recognised the potential for overlap the process, in his view, was inevitable.

⁶ Involutionary growth is the term used to define growth that is dependent on another force or outside sector. This contrasts with evolutionary growth in which the informal sector is capable of independent growth.

2.2.3 Micro-enterprises in South Africa

Having summarised the international size and type of informal sector activity it is necessary to review at a deeper level the informal sector in South Africa. This has been the focus of much research over the last twenty years, and a significant degree of understanding has been built up⁷ (Rogerson 1994a).

2.2.3.1 Historical background

The owners of the majority of micro-enterprises are black or coloured and therefore such enterprises are very much a product of historical circumstances, since South Africa has had a long history of denying opportunities to people based on racial grounds (World Bank 1993). Research has identified the high degree of state involvement in suppressing the growth of informal employment up until the 1980s when a policy of repression was replaced with one of deregulation (Beavon and Rogerson 1990, Nattrass 1990a).

2.2.3.2 Size of the sector

There is general agreement that the informal sector is now significant and growing source of economic activity within South Africa (May and Stavrou 1990). Kirsten (1988, 1991), in reviewing a number of surveys made in the 1980s, concluded that the average percentage of the economically active population working in the informal sector was 23%. Manning and Mashigo (1994) put the figure at 24% while May (1993) indicates a range of between 19 and 24%. These enterprises employed 1.6 million people according to a 1994 government survey (Natal Mercury 1995b). Another measure is in terms of density. May (1993) identifies a density of enterprises of 38 per thousand households which is much lower than in other African countries where densities of between 74 and 77 per thousand have been found (Liedholm and McPherson 1991).

2.2.3.3 Employment

Research in Cape Town indicates that 66% of micro-enterprises involve only one person and only 4% employ more than three people (Dewar and Watson 1982). The sector would therefore not appear to be a major source of wage employment, either at present or in the immediate future (Maasdorp 1983a, Nattrass and Glass 1986, World Bank 1993). Another survey puts the average number of workers as 2.1 per business, but 80% of this is made up of household and proprietor labour and hired labour is only 0.4 people per business (Liedholm and McPherson 1991). Businesses are able to survive on severe exploitation of labour and the use of non-remunerated household labour (Dewar and Watson 1981). Employment growth is therefore not a function of informal sector operators employing more people (Nattrass and Glass 1986), but rather a result of the proliferation of enterprises (Roberts 1978).

⁷ Rogerson writes: 'Over the last 20 years at least two books have appeared on the subject, a number of monographs examine specific issues such as co-operatives, training or informal manufacturing and a national bibliography prepared as a background to this presentation lists over 200 completed research investigations on differing aspects of the country's informal or micro-enterprise economy' (1994b: 1).

2.2.3.4 Profitability

There is debate as to the income earning potential of the sector. Some identify the potential high earnings of micro-enterprises (Maasdorp 1983b, Hesketh 1989a) while the majority suggest that while a few may earn significant incomes the majority earn at or below the household subsistence level ⁸(Nattrass 1990c, Simon 1984, Hirshowitz and Orkin 1994). Nattrass and Glass (1986) estimate that in real terms investment in the informal sector earns a rate of return below that offered on many low risk alternatives. Samal (1991) however points out that although the average monthly income in the informal sector is only half that of the formal sector, it hides differences within the informal sector both between enterprises and between employers and employees. This variation is partly explained by the observation that people may be full time or part time employed in the sector (Dewar & Watson 1981). For example, Krige (1988) points out that in Kwa Mashu, although 40% of households had a member involved in the informal sector, only 10% were entirely dependent on the sector. However the main conclusion seems to be that the prospects for rapid expansion and prosperity are poor for the majority of small operators (Nattrass 1990c, World Bank 1993).

2.2.3.5 Contribution to GDP

At most the informal sector is thought to contribute between 12% and 13% of GDP (Abedian and Desmidt 1990, Hartzenberg and Leiman 1990) although the actual figure is likely to be much lower. For example the 1994 CSS survey put the contribution to GDP as low as 6.7% (Natal Mercury 1995b).

2.2.3.6 Sub-sectors

Kirsten (1988) identified four main sub-sectors of economic activity in the informal sector; trade, production and construction, services and illegal activity.

The retail or trade sector⁹ is identified as being the main sub-sector with as much as 70% of the informal sector working in it (World Bank 1993, Manning and Mashigo 1994). Within it a number of further distinctions have been made. May and Schacter (1991) distinguished between retail non-food (28%) and retail food (28%), while Thomas (1992) broke the sector down into 10 groupings ranging from home selling and hawking to factory outlets. Hawking, where minimal capital start up is needed, appears to be an employment option for the illiterate or marginally educated (Davidson and Stacey 1988) and predominantly involves non-food items. Food retail is dominated by spaza shops¹⁰ and shebeens¹¹. A survey by Markinor estimates the number of

⁸ The household subsistence level (HSL) is the theoretical minimum income for a black household and indicates what the breadwinner would have to earn to fulfil the needs of the household in the short term. The HSL is a very conservative figure, assuming low dietary requirements, transport for only one wage earner and omits medical and similar costs (Simon 1984).

⁹ Broom and Joyce-Clarke (1990) define the retail informal sector as those activities which involve the purchase of goods for subsequent re-sale where GST is paid on purchases.

¹⁰ Spaza shops are the name given to small retail shops selling a variety of groceries typically located in the owner's home. In township slang, spaza means 'camouflaged', the description originating from days when regulations and the attitude of officials necessitated the clandestine operation of these home grocery outlets.

spaza shops in metropolitan areas as high as 66,000, representing one per forty households (Finance Week 1990). De Montille (1987) identifies that in Soweto, other than at taxi ranks, there is an even geographical spread of such enterprises.

Manufacturing is of limited importance (World Bank 1993). Restrictive legal practices, educational disadvantages and the structure of the economy are key reasons for this apparent imbalance (Manning and Mashigo 1994, Krige 1988).

Transport is dominated by the so called 'black taxi industry' (Khosa 1991). The taxi industry, which mainly operates 8 and 16 seater mini-buses, was facilitated by the birth of SABTA¹² and its effective merger with the 'aristocracy of finance' (Khosa 1990:212). The result has been the rapid expansion of the industry to its present size of some 80,000 vehicles (Barlosky 1989). Other service activities include childminding, garbage collecting (De Kock 1987) car washing (Booth 1987) and the activities of sangomas (Cunningham 1991).

There is little research data on illegal activities¹³, but it would appear to be a significant area particularly with regard to drugs and prostitution (Preston-Whyte 1991). Nattrass and Glass (1986) point out that socially undesirable activities, which are often the most lucrative, are often excluded from surveys leading to distortions in the figures for informal activity.

There have been various historical analyses of these sub-sectors (Boomgard et al 1992) including the shebeen (Rogerson 1990), taxi (Khosa 1994a) and native eating house (Rogerson 1988b) industries. However these have all focused on the macro-level.

2.2.3.7 Age of enterprises

The average age of businesses was 4 years with that for a spaza slightly lower at 32 months (DRA 1994a). In an earlier study, however, May and Schacter (1991) observed that 13% were less than one year old and 51% were between 2 and 4 years old with this being the first business for the vast majority of owners.

2.2.3.8 Gender

The informal sector is evenly distributed between men and women although there is a lot of variation depending upon the sub-sector (May 1993). Typically women are involved in the less profitable enterprises (World Bank 1993, Preston-Whyte 1991, and Friedman and Hambridge 1991). For example studies have identified that women dominate in survival enterprises such as garbage picking and hawking (De Kock 1987, Nattrass 1987). Women would also appear to be at a disadvantage in the formal labour market with the result that women are more often work seekers in the informal sector (May and Rankin 1990).

¹¹ The name is thought to have originated from Ireland and is a place where beer is sold and drunk, often having been brewed on the premises.

¹² South African Black Taxi Association.

¹³ Since many informal activities are technically illegal the term illegal is used in this sense to mean those activities that are both criminally illegal and broadly viewed as socially undesirable.

2.2.3.9 *Urban-rural nature of the informal sector*

The majority of enterprises are located in the urban and peri-urban areas (Kirsten 1991). However the policy of Bantustans and the resulting massive urbanisation in rural areas has meant a significant number of enterprises operate from rural or peri-urban areas (Murray 1987). The combination of large rural-urban migrations (Moller 1988, Maasdorp 1982, DBSA 1991) and the policy of bantustans has seen the growth of informal settlements (Mabin 1989) which operate on the peripheries of the urban centres and act as a link between rural and urban areas. These would appear to be where the most rapid expansion in micro-enterprises is centred (Rogerson 1994a).

2.2.4 The informal sector

In the last twenty years a great deal of interest has focused on the small and micro-enterprise sector amongst practitioners, academics and politicians¹⁴ (Kasarda and Crenshaw 1991). One of the key terms has been that of the 'informal sector'. Erasmus lists some of its names:

'namely the underground, black, irregular, shadow, unofficial, hidden, unrecorded, parallel, informal, submerged, clandestine, unobserved, concealed, dual, cash, twilight, moonlight, second economy, counter economy and the back door' (1989:55).

As a consequence a great deal has been written about the sector, its role, and its constraints. This section outlines the main theoretical approaches to defining the sector, and seeks to provide clear working definitions of the various terms to be used in the following chapters.

In the post war period, as nations in the developing world obtained their independence from colonial rule, it was assumed that a strategy aimed at economic growth, industrialisation and modernisation would be the panacea for all nations (Moser 1984). It was further assumed that as development took place household and artisan activities would decline and be replaced by factories and bigger enterprises (Anderson 1982). However by the end of the 1960s it was clear that economic growth based on rapid industrialisation was failing to absorb the rapidly increasing populations of the developing world (Seers 1979) and that the envisaged structural transformation was not taking place, particularly in Africa (Mead 1994). At the same time development economists (Colman and Nixon 1978 and Seers 1979) were raising concerns about income distribution, equity, the lack of growth and the inability of the modern sector to employ significant numbers of people. Poverty and unemployment therefore become central policy issues and attention altered to focus on enterprises and on alternative strategies for development.

The original theoretical work related to the rural-urban dualist models of the 1960s. These saw the movement from traditional agriculture to modern industry as being in two stages (Lewis 1955). The first stage was identified as when the migrant moved physically to the urban area and the second stage when employment in the modern sector had commenced. As Moser writes:

'This dualist model of an economy divided into traditional and modern sectors provided the rationale for the gradual but inevitable elimination of inequality and the social and economic aspects of poverty' (1984: 140).

During this period a number of micro studies were made of communities in developing countries (Geertz 1963, Hart 1973). In one of these the terms 'formal' and 'informal' were coined by Hart

¹⁴ An entire issue of the journal *World Development* (1978, 6.9/10) was devoted to the sector.

(1973) after he found that in a slum district of Accra, Ghana some 60% of the working age population were not employed in the 'formal' sector, but rather worked in a range of non-formal activities.

It was into this environment of changing policy concerns that Hart (1973) introduced the phrase 'the informal sector', identifying these different enterprises as a group rather than a residue of agriculture and industry. This work challenged the traditional view that either ignored the sector¹⁵, or viewed it as a minority sector largely involved in criminal or non-productive activities.

However, it was the ILO, through its World Employment Programme, that put this shift from economic growth to employment growth and income re-distribution firmly on the policy agenda via the ILO/UNDP country report on Kenya (1972). It pointed out that the problem was not so much unemployment, but rather employment. The informal sector was made up of a group of people called the 'working poor'. The report widened Hart's definition, which was based on the distinction between wage employed and self-employed, and defined the informal sector in terms of the following characteristics:

'The informal sector activities area way of doing things, characterised by

- a) ease of entry
- b) reliance on indigenous resources
- c) family ownership of enterprises
- d) small scale of operation
- e) labour intensive and adapted technology
- f) skills acquired outside the formal school system, and
- g) unregulated and competitive markets.

The characteristics of formal activities are the reverse of these' ILO (1972:6).

The report and subsequent ILO work (Lubell 1991) emphasised the positive role of micro-enterprises. It began to define the dimensions of employment and to identify structural imbalances and advocated a more active role for governments. For example, governments were encouraged to support informal sector access to finance through the creation of new credit institutions. The sector was promoted as '...economically efficient, productive and creative...and...can be a source of future growth as an integral part of an employment strategy' (ILO 1972: 51 & 229). However its most lasting influence was that micro-enterprises were put on the policy agenda of both governments and international organisations.

2.2.5 Critique of the informal sector approach to micro-enterprise development

While recognition of the informal sector put it on the policy agenda, the term itself was criticised on empirical, theoretical and political grounds. As this section illustrates, the term has little theoretical value, however the general consensus is that it is a useful generic term, but to be used with caution (Forbes 1979, Preston-Whyte and Rogerson 1991). As Peattie writes:

'The concept of an informal sector is coming into more and more general use, because it appears to serve the purpose of many different, even conflicting, purposes...But it serves all these groups as a banner. It serves none of them adequately as a tool of analysis or as a framework for development policy.' (1987: 857)

¹⁵ This sector was ignored because it was assumed that it was only a residual sector that would decline over time; also official statistics, based largely on Western collection methods, did not identify and record the sector.

The criticisms of the informal sector approach can be summarised under the following six headings.

2.2.5.1 Definition

There is firstly a problem in defining the sector through the ILO's use of the such a broad set of characteristics (Mosley 1978). Subsequent research has emphasised the heterogeneity of the sector and its dynamic nature (Bromley 1978, Castells et al 1989). Empirical studies reveal the existence of exceptions to virtually every characteristic of informal sector enterprise (McGee 1979b). Therefore, as Lubell (1991) writes, the inclusion of 'relative' in front of each characteristic provides a more usable descriptive definition. This then allows it to be used as a generic concept (Middleton 1989).

2.2.5.2 Political naivety

Leys (1973) criticised the political utopian recommendations of the report and its assumption that the ruling elite in Kenya would willingly reduce their power and influence by redistributing incomes¹⁶. He also points out the progressive reforming programme of the ILO contradicted the essential feature of neo-colonialism. Bromley and Birkbeck (1984) echoed this by commenting on the rather romanticised view of the sector which ignored the situation of exploitation and inequality in which most micro-enterprises operated. On another level its very political nature has been identified by a number of writers¹⁷. Schmitz writes:

'Clearly this report was not just a piece of research, but an explicit political document; the mission's insistence on the dynamism and potential of the above mentioned sector came less from empirical evidence than from the need to draw the attention of politicians, planners and administrators to a neglected but important part of the urban economy.' (1982a: 429).

This attitude was combined with what Moser (1978) calls a broadly 'social democratic' outlook and what Forbes (1981b) called a conservative ideological framework.

2.2.5.3 The concept of dualism

Many writers (Bromley 1985, Gerry 1978, Bose 1990) have criticised the concept of dualism between the formal and informal sector. Bromley (1978) identifies nine criticisms of the dualist view:

- a) It is a simple classification; reality shows a continuum between the two extremes.
- b) The criteria are inconsistent and many informal activities may also be formal.

¹⁶ For Leys the political power of the bourgeoisie and the political impotence of the working poor were integral parts of the structure of underdevelopment. They could not be seen as mutually working together, but rather in a state of conflict and exploitation. The ILO report ignored this political aspect completely.

¹⁷ Bromley (1978) points out that the report came at the right time and 'it provided the rationale for the sort of policies which mainstream international development community wished to recommend to Kenya and other Third World countries. In other words the informal sector concept was adopted because it arose through effective communication channels at a convenient moment for international organisations and politically middle of the road governments'.

- c) It assumes the two sectors are independent.
- d) It leads to the assumption that one policy is enough.
- e) There is an urban bias to the approach.
- f) It tends to ignore other sectors such as the state and agriculture.
- g) It is too simplistic in its solution that government is the only problem.
- h) There is confusion between whether the sector refers to neighbourhoods, households or enterprises. People will change within these over time.
- i) Finally the urban poor and the informal sector are not, as this view tends to assume, the same since many urban poor work in the formal sector.

2.2.5.4 Legalism

De Soto (1989) argued that while the term is not very precise the key issue or divide between the sectors is the legal and bureaucratic distinction. Most of the activities in the informal sector are not criminal, but are made so either involuntarily or voluntarily when the cost of obeying the law outweighs the benefit. For example, legal requirements such as licenses exclude micro-enterprises from borrowing from banks, but the bureaucratic and legal restrictions exclude the majority of businesses from obtaining these licenses¹⁸. As Lagos writes:

‘In this view the emergence of the informal sector was seen as being caused not by the factors inherent in the existing economic and social structure, but rather by flaws in the prevailing laws regulations and tax system. This in turn was seen as the result of inadequate legislation, excessive red tape and inefficient bureaucracy’ (1995:113).

Action is therefore needed to reduce rather than increase the role of the state (Bromley 1990) by deregulation in order to reduce the costs of both achieving and then retaining legality (Lagos 1995). While the analysis of the structural relationships within which informal activities operate under these legal restrictions is rather limited theoretically (Bromley 1990), and the causal link between regulations and the size of the sector rather scant (Lagos 1995), the use of a legal framework did provide a useful, if rather country specific, critique of the informal sector.

2.2.5.5 Radical dualists

Radical dualists are those who maintain the concept of dualism, but view it from the context of a world economy in which there is a core and periphery (Baran 1957, Amin 1982). Marginalisation is the central theme within a world economy in which more and more people in the informal sector share stagnant markets amongst themselves as a result of the workings of peripheral capitalism (Sandbrook 1982, Kay 1989). However, while the insights of marginalisation within a whole economy are useful, it fails to fully tackle the issue of dualism and is over dependent on terms such as exploitation and the total helplessness of people within the informal sector (Rogerson 1985).

¹⁸ De Soto in his study identified that it took 279 days to obtain a tailoring license.

2.2.5.6 *Petty commodity production*

The most important criticism was made by those who questioned the whole theoretical basis and underpinning of the ILO's dualist approach to the informal sector. This is further considered in section 2.2.6. and will form the basic framework of analysis for the thesis.

2.2.6 Petty commodity production: an alternative explanation of the informal sector

The petty commodity production (PCP) approach rejected the ILO's dualism between the formal and the informal sector and emphasised a 'subordination approach' (Tokman 1978, De Montille 1987). The critical factor was not the dualism of two sectors, but rather the unity of the whole economy within which petty commodity production operated (Forbes 1981b). As Moser writes:

'The identification of a continuum of productive activities... and the empirical descriptions of complex linkages and dependent relationships between production and distribution systems, has resulted in a dissatisfaction with any two sector division of the urban economy...it is the relationship between these different systems or sub-systems of production which determines these phenomena which will characterise each of these elements' (1978:1055).

The central point of analysis was not so much the differences between sectors, but the relationships to the various forms or modes of production. Petty Commodity Production¹⁹ became the analytical tool to explain the phenomenon of the informal sector (Le Brun and Gerry 1975, Bromley and Gerry 1979, Davies 1979, McGee 1979a, Moser 1980). As Moser writes:

'Petty commodity production in conceptualizing economic activities in terms of a continuum of productive activities places the essential area of analysis in the identification of complex linkages and dependent relationships between and within production and distribution systems, and hence the potential for evolutionary as against involutionary growth within the productive sector.' (1984: 147).

PCP is a transitional mode of production characterised by an incomplete separation of labour from the means of production, in which an exploitative relationship exists between it and the dominant mode of production, formal capitalism (Babb 1989). The mode is non-capitalist, but is continually being articulated through and by capitalism. This results in what Wellings and Sutcliffe (1984) call the mix of exchange-values and use-values in explaining what motivates people to work in the informal sector. Therefore other values such as traditional values, household needs and customs play as much a role as the of accumulation of wealth (Dixon 1995, Nakanishi 1990, and Morris 1980). Western economies are by and large characterised by homogeneous capitalist modes of production. Third world economies exhibit both capitalist and non-capitalist modes of production in which the former is deeply integrated into the international capitalist economy (McGee 1979a). It is the articulation of these two modes of production and in particular the laws of coexistence and hierarchy between the modes of production that determine the form of petty commodity production (Forbes 1981a).

¹⁹ Commodity production is used here in the Marxist sense. 'A commodity is a use value which has exchange value. It is a use value which is produced for exchange - made to be swapped or sold on a market' (Harrison 1978:33). In this definition it need not be a physical object since if it is something people need it has a use value (Forbes 1981b).

The main difference between capitalist and non-capitalist forms of production is that in non-capitalist forms of production the owner of the means of production is also a producer while in a capitalist enterprise the owner will be concerned with the organisation of the work force (Middleton 1979). There is some debate as to whether PCP should just include manufacturing enterprises where the activity is clearly that of production and not distribution or service (Scott 1979 and Middleton 1989). As Scott writes:

'Yet many of the self employed are involved in the production of 'services' i.e. intangible commodities. The tertiary sector reveals at least as many ambiguities and complexities as petty manufacturing, not only regarding relations of production but also in terms of debate among Marxists over what constitutes productive and unproductive labour.' (1979: 112)

However while some researchers have limited their analysis of petty commodity production to the manufacturing sector (Le Brun and Gerry 1975, Middleton 1979) others have used a much broader definition to include service and commerce within the category of PCP (Forbes 1981b, and Scott 1979). This second much broader classification has also been used when a PCP framework of analysis has been adopted by South African researchers (Rogerson 1985, Maasdorp 1983b). Therefore while recognising the theoretical debate the author has adopted this broader definition of petty commodity production which includes all types of enterprises which apparently fall outside the major axis of capitalist production and/or market relations (Gerry and Birkbeck 1981). Productive activities include both the adding of value through the manufacture of goods and also the adding of value through the provision of various services. For example a trader will add value to goods sold through the transporting, storage, marketing and eventual sale of the goods. Petty commodity production is therefore a broad term that includes both petty production, petty commerce and petty trade (Scott 1979).

There is also concern as to whether to view PCP as a mode of production or a form of production (Moser 1984 and Rogerson 1985). Since a mode refers to a totality which is self-sufficient it would seem preferable to view it as a form of production. This implies that PCP is an integral, subordinate component of capitalism and stresses the necessity of viewing the sector in relation to the broader economy and not in isolation.

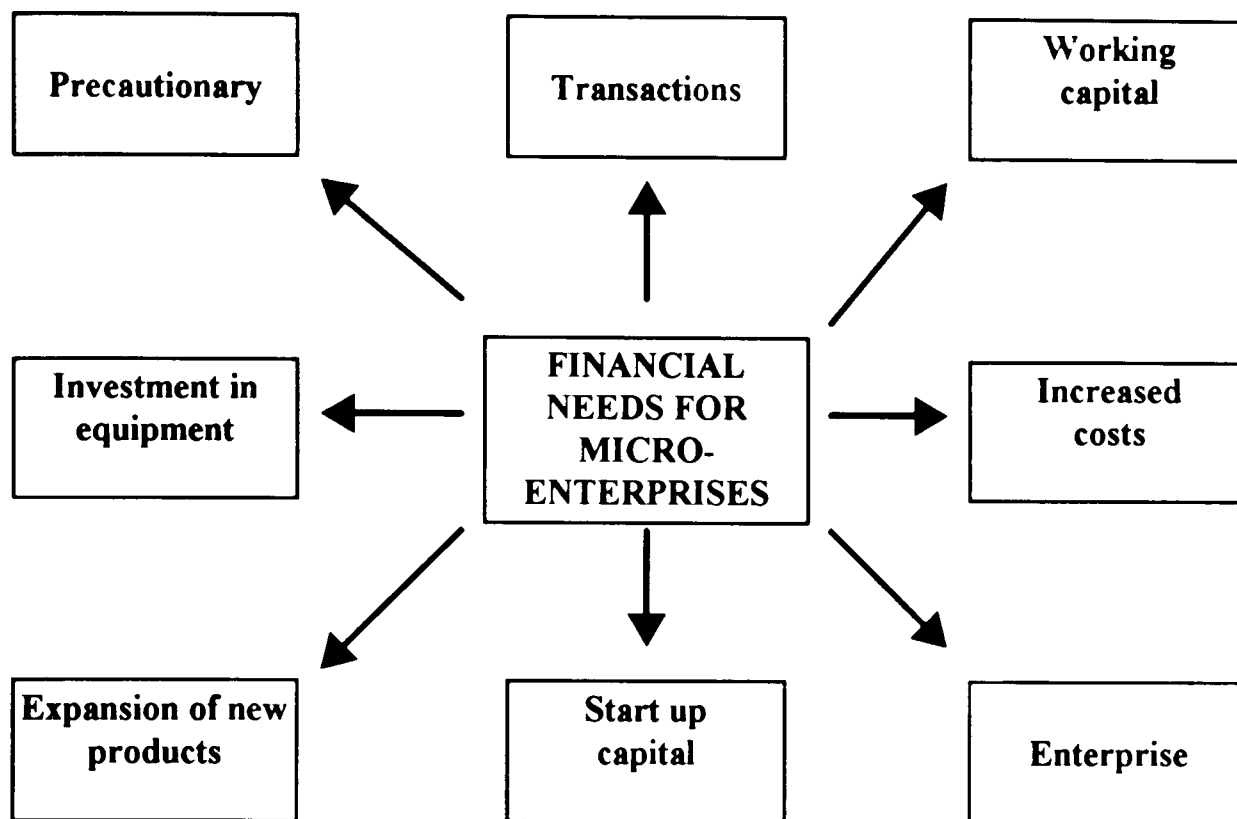
2.3 Financial needs and options

This thesis examines the relationship between finance and the process of growth and decline in micro-enterprises. There are two aspects of finance that this thesis argues are important to such a process; financial needs and financial options

2.3.1 Financial needs

Finance is identified as being a critical constraint to micro-enterprise development (Yankson 1991, World Bank 1993, Koch 1990, May 1992) although some question its primacy (Manning 1993a, Nattrass et al 1986). Finance is therefore seen as a necessary, although not the only, pre-requisite for micro-enterprise development (Mizrahi 1988).

There are a variety of needs for finance as shown in Figure 2.1. These can be summarised under four categories; start up, present needs, future needs and security and household needs.

Figure 2.1 Financial needs of micro-enterprises

2.3.1.1 Start-up

Finance is needed to purchase equipment, stocks and other assets when a business starts. If there is no finance available then clearly the business cannot start, whatever the abilities and ideas of the entrepreneur or the potential profitability of the business. Start up capital is therefore a vital component in any business and in South African surveys it has been consistently viewed as a constraint (May 1992). International start up figures vary from as little as \$40 for Kenya (House 1984) to as much as \$800-2700 in the Philippines (Levitsky 1988), while in South Africa estimates vary between \$1500 (Koch 1990), \$150 (Jabobs 1982) and \$15 Maasdorp (1983a). However the start-up amounts, to be relevant, need to be seen in the context of the national economy and the sub-sector in which the micro-enterprise operates.

2.3.1.2 Present needs

Any micro-enterprise faces a variety of day to day demands for finance. These essentially revolve around the need for working capital for the business cycle. Kilby (1984) points out that for smaller firms this will be a larger proportion of total capital. Lycette and White (1992) list the following effects of a lack of working capital: stock is reduced, production is discontinued, credit is unable to be offered to customers who may as a result look elsewhere, discounts are not available on supplies, and the enterprise owner rather than waiting for better prices may be forced to sell immediately.

2.3.1.3 *Future needs*

The entrepreneur would like to see the business develop and this can take a number of forms, from the upgrading of equipment and facilities to the expansion of the business and the production or purchase of new product lines. Typically micro-enterprises have limited finance for this form of longer term investment (Nattrass and Glass 1986).

2.3.1.4 *Security and household needs*

There is typically no clear distinction between finance for the micro-enterprise and for consumption expenditure by the household due to the fungibility of such finance (Lipton 1980a). To allow for this broader view of enterprise finance it is necessary to place emphasis on the household as the entrepreneurs and the enterprise unit rather than on individuals (Erwee 1987). As a result there is a need for a certain amount of finance to be kept liquid to be used in the event of emergencies and unforeseen circumstances both in the household and the business (Moser 1980). Typically this is for short term finance of one to two months to resolve a particular short term need (Zeller 1994). This need is further heightened by the environment in which most informal businesses operate where not only is there uncertainty about household income due to the economic plight of such families, but issues around health, violence and theft mean that business and household finance is often precarious.

2.3.2 *Financial options*

There are four options available to meet these needs. These are own finance, equity finance saving measures and credit.

2.3.2.1 *Own finance*

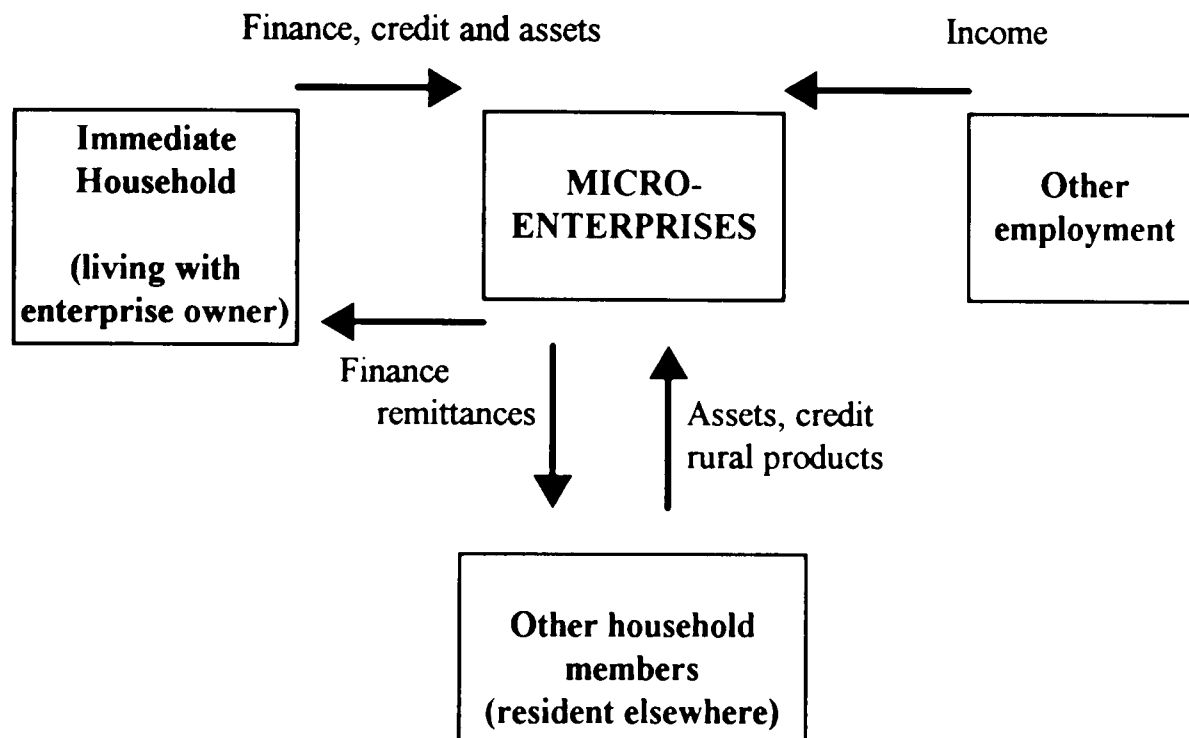
Own finance is either from own sources for start-up, or from the re-investing of profits in the business for working capital and expansion purposes. Evidence both internationally (Malkamaki 1990) and in the context of South Africa (Morris 1980) identifies that start-up finance is primarily from this source. The investment of the entrepreneur's own money in the enterprise either follows the sale of assets or involves the foregoing of present consumption in the hope of a higher flow of income in the future.

The dominance of own finance in start up implies a significant role for domestic savings prior to business start up. Evidence indicates that savings propensities are high amongst the poor who save in South Africa (Coetzee 1992). However there is limited research on how savings and own finance combine since research has dealt with each subject separately and has tended to focus on rural rather than urban areas (Holst 1984, Vogel 1984, Von Pischke 1991).

The finance of working capital is mainly via profits from the enterprise. This point is often made by writers (McLeod 1980) who note that frequently the need is for better management rather than additional finance in order to reduce cash flow problems and increase overall profitability. Typically entrepreneurs that have been successful in the past are likely to continue to be so (McLeod 1980). Such enterprises will therefore be able to finance themselves for present and future needs from profits while other less successful enterprises will not and will therefore fail.

There is little analysis in the literature as to what own finance constitutes and the types and levels of flows involved. Figure 2.2 shows the diversity of options available to a micro-enterprise owner. The blurring of consumption and production investment and the issue of fungibility (Miracle et al 1980) operate in both directions and the balance will determine whether there is a net flow into the business. It also illustrates the dual function of the rural sector (Forbes 1981b) both as a resource and as a leakage to and from the urban sector.

Figure 2.2 Potential flows between the household and the micro-enterprise



2.3.2.2 Finance saving measures

As an alternative to seeking finance measures can be adopted for reducing the financial needs of a micro-enterprise. In many ways these can be viewed as reflecting good management by the owner, but they do represent an important strategy for reducing financial needs.

2.3.2.3 Equity

The third option is to obtain equity finance, whereby somebody else puts money into the enterprise. In the case of micro-enterprises this is done either in the form of a partnership or a profit share. It has been pointed out that although a partnership is cheap and easy to set up its informal nature frequently leads to management problems and debt, exacerbated by the uncertain duration of the partnership (GTZ 1985).

2.3.2.4 Credit option

The fourth option is to seek some form of credit. Bouman (1979) defines credit as the transfer of money, goods and or services against a specific promise of repayment at a future date. Before examining various credit options and the role of finance institutions in the development of petty

commodity production the next section looks at the role of finance in petty commodity production from the perspective of the enterprise.

2.4 *Financial needs and options and petty commodity production (PCP)*

This thesis is to adopt a petty commodity production approach to the working of micro-enterprises. In common with much of the writing on the subject (Preston-Whyte and Rogerson 1991), it uses the term informal sector in a descriptive sense, but within a neo-marxist framework (Moser 1978, Maasdorp 1983a).

The following sections review within a PCP framework, the role of financial needs and options of micro-enterprises and financial institutions in determining the nature of petty commodity production. In each case the literature is reviewed and the potential role of finance developed under the four hypotheses numbered H1 to H4.

2.4.1 *Petty commodity production and finance*

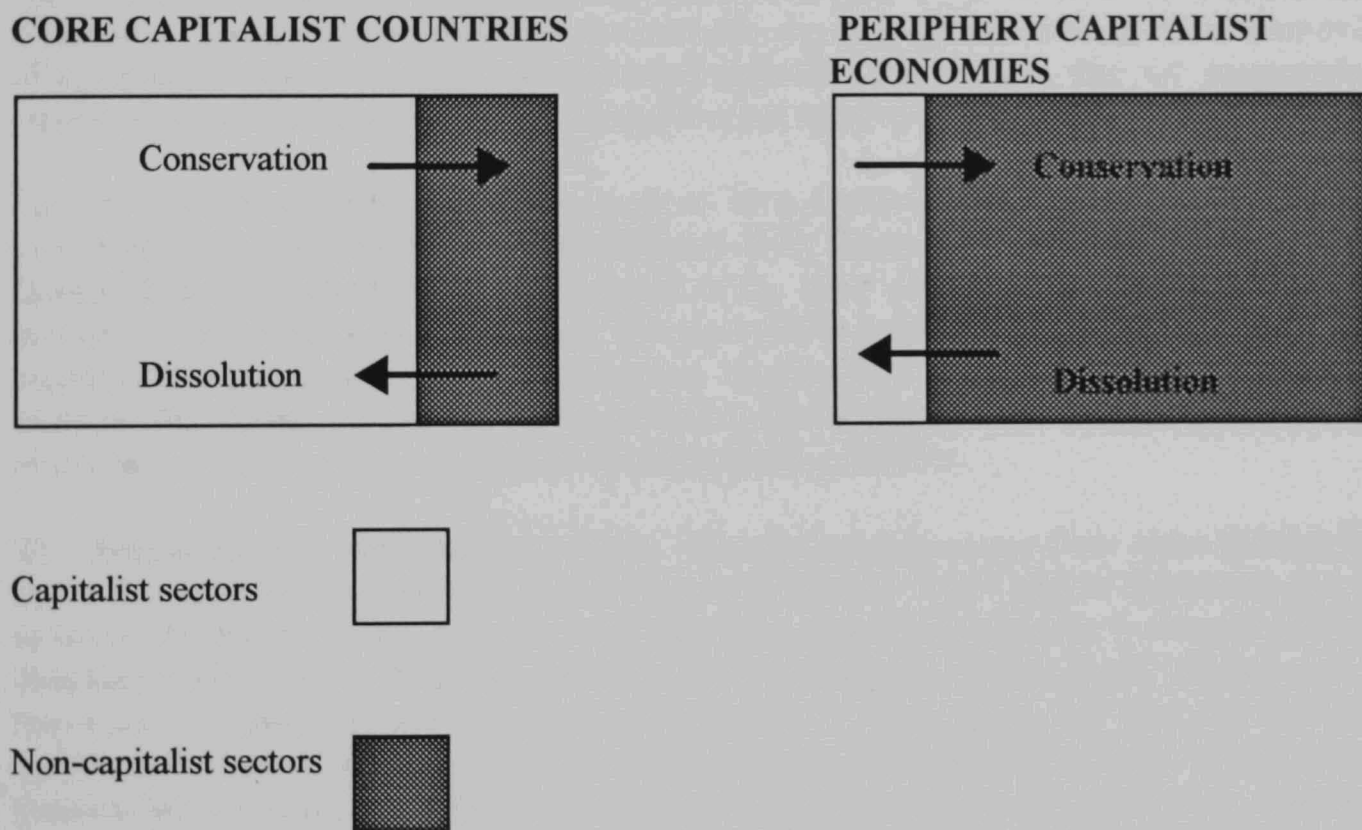
While there have been numerous studies in South Africa, including a number of micro-studies (Dewar and Watson 1981, Krige 1988, World Bank 1993), there has been limited attention paid to the role of finance in determining the development of petty commodity production over time. Research has primarily limited its analysis to the issue of whether access to credit is a constraint to micro-enterprise development (Morris 1980, Dewar and Watson 1982, De Montille 1987, World Bank 1993). The main exception to this is Khosa (1994a) who has examined the growth of the black taxi industry and particularly what he called the 'marriage of the aristocracy of finance' to the taxi operators. Prior to the 1980s he estimates that it took up to 20 years for the average black manual worker to save enough to buy a second hand taxi. The result was that up until the 1980s most taxis were driven by their owners and were therefore PCPs. The result of access to finance has been the replacement of the owner driver with drivers employed by taxi owners who have been able to accumulate capital, and hence the dissolution of much of the taxi industry into capitalist enterprises (Khosa 1994a and Khosa 1994b). Finance institutions have therefore played a significant role in the growth and change of the taxi industry. However while Khosa's work is illuminating in identifying the process of growth within the taxi industry it is based wholly on a macro-study with little analysis at the micro-level as to how the processes work. There is also the issue of whether different process are at work in other sub-sectors.

The following sections review the various characteristics and dimensions of petty commodity production identified in the literature. In each area an attempt is made to indicate the possible impact that financial needs and options make in either reflecting these characteristics or determining them. The different characteristics reflect the nature of PCP. The strength of such analysis is that it allows three particular dimensions of the informal sector to be examined: its diversity, the complexity of relationships and the dynamics of such relationships. These are then analysed in relation to the subordinate relationships between PCP enterprises and the formal capitalist economy. The role of finance, this thesis argues, is important in determining the nature of petty commodity production.

2.4.2 Conservation and dissolution

Marxism like much development thinking originally assumed that PCP enterprises would be dissolved into the proletariat (Marx and Engels 1935). However history has shown this not to be the case as enterprises classified as PCPs have not only failed to disappear but have grown in numbers. To explain this it is necessary to understand the process of conservation and dissolution (McGee 1979a). Economies dominated by core capitalism are typically characterised by dissolution of non-capitalist forms of production and the resulting expansion of the capitalist sector (Gerry and Birkbeck 1981). However in the periphery, capitalist economies, particularly those that are stagnant or declining²⁰ are in a continual process of change in which non-capitalist PCP exists as a significant sector (McGee 1971). This is shown in Figure 2.3.

Figure 2.3 Process of conservation and dissolution



Non-capitalist forms of production are either destroyed (dissolution) or are restructured to meet the needs of the capitalist mode and temporarily experience a process of conservation (Rogerson and Hart 1986, Bettelheim 1972). 'In other words the transition to capitalism is not a straightforward one of invasion and succession. It is a more complex process of interdependence and qualitative change which simultaneously creates both development and underdevelopment' (Forbes 1981b:110). Conservation therefore occurs when PCP enterprises articulate themselves in relation to the dominant mode of production in such a way as to maintain their non-exchange values. Le Brun and Gerry describe such enterprises in this way:

²⁰ Stagnant economies also include economies where GDP growth is occurring but is unable to keep pace with population growth. The result is static or declining GDP per head. South Africa for much of the 1980s and early 1990s has been characterised by this.

'They have the illusion of ownership. Since they are not subjectively directly exploited by capital they are not aware of their objective interest in the disappearance of the dominant mode of production and this lack of consciousness is compounded by their hope of becoming capitalists themselves. They remain attached to family, religious and ethnic relations... Their lack of consciousness of their objective conditions can be explained by the severe competition generated among and between permanent and temporary workers in capitalist industry, by the belief that transition to capitalist self-employment is more possible and by the obscuring of objective reality by the dominant secular and religious ideology' (1975:31).

Dissolution occurs when such enterprises are dominated by exchange values and become petty capitalist enterprises or the enterprise becomes marginalised to the point where the owner has effectively joined the ranks of the reserve army of labour and to survive he or she is primarily forced to sell his or her labour. Conservation and dissolution is therefore a complex and historical process which occurs at the enterprise, sub-sector and national level (Middleton 1989).

What is the role of finance in the process of dissolution and conservation of PCP enterprises? This thesis argues that the financial decision mechanisms taken by micro-enterprises lead to their dissolution. Enterprises are able either to accumulate capital sufficient to break out of their cycle of reproduction and be transformed into small capitalist enterprises or they are progressively weakened, subordinated and marginalised into survival enterprises (Gerry and Birkbeck 1981).

Finance from formal credit institutions tends to be a function of the age of the enterprise its growth and the experience of the owner (McLeod 1980, House et al 1993). Increased access to finance therefore encourages the development of the older more established businesses at the expense of the smaller micro businesses. The net result is a shift from PCP enterprises to either capitalist enterprises or to survival enterprises, waged labour and unemployment (Dewar and Watson 1982, Khosa 1990). The important issue is how finance actually impacts on this process of dissolution (Babb 1989) and whether its role is direct or indirect.

The shebeen industry illustrates this process. The gradual move away from home brewing has meant increased links between the large brewing industry (e.g. South African Breweries) and the shebeens (Hellmann 1948). It is estimated that 30% of total beer turnover is through shebeens (Marketing Mix 1989). Rogerson and Hart (1986) outlined the changes in the industry and its responses to legislation and changing circumstances. They point out that the increased commercialisation of industry and the resulting increase in capital costs needed to run such a business has meant that legal shebeens are increasingly being run by successful petty capitalists rather than struggling elements of the casual poor. The remaining shebeens are either further marginalised or stop work. This process of dissolution has been linked to the changing legal status and the needs of formal capital (in this case the brewing industry). However while finance is seen as playing a role it is unclear what role it plays and how it works. This is examined further in Chapters 5 to 10.

H1: FINANCIAL NEEDS AND OPTIONS USED BY MICRO-ENTERPRISES LEAD TO THE DISSOLUTION OF PETTY COMMODITY PRODUCTION.

2.4.3 Casual work and the continuum of employment

The term casual work was developed by Bromley and Gerry (1979) to mean 'a living which lacks a moderate degree of security of income and employment' (1979:5). They rejected the idea of separating waged employment from self-employment and suggested that there is actually a

continuum of employment from stable wage work to 'true self-employment' (Figure 2.4). Two additional groups of self employment were identified in this continuum: disguised employment and dependent employment.

Figure 2.4 Continuum of employment

Stable waged work	Temporary waged work	Disguised and dependent employment	Self employment
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2.4.3.1 Disguised employment

Disguised employment gives the illusion of self-employment (Bose 1990). However it is unclear whether such disguised employment benefits the micro-enterprise. Subcontracting²¹ and flexible specialisation, using the example of Japan, can be benign to small enterprises (APO. 1986, Thoburn and Takashima 1992). However, there is no guarantee of this (Evcimen et al 1991) and work by others (Gerry 1978, Birkbeck 1979) points to its disguised function. Sub-contracting by the formal sector involves a linkage between it and the informal sector which is often unequal and potentially exploitative. Evidence from South Africa concludes that there has been limited development of subcontracting (Roberts 1992) and where it has occurred there has been little benefit to the micro-enterprises (Standish and Krafchik 1991).

2.4.3.2 Dependent employment

Alternatively there are forms of employment where the worker is dependent on one or more larger enterprises for credit, rental of premises, a monopolistic or oligopolistic supply of raw materials or merchandise, or a monopsonistic or oligopolistic outlet for production. The key point is that dependent workers have obligations which reduce their freedom (Bromley 1982).

What is the role of finance in determining this? The literature is rather vague on this subject although the following possible roles can be identified.

Dependent work is often the result of the need for capital, however when there is a little capital needed, typically in the more marginal activities, then the person is truly self-employed (Beavon and Rogerson 1982). The implication is that the enterprise needing finance in a finance scarce environment, potentially including those with evolutionary growth, will be more likely to be in dependent or disguised waged employment. This situation can be observed in the taxi industry where it is estimated that 50-60% of SABTA member taxis are owned by white African business people (SAIRR 1989) whose black African drivers appear to own the taxis.

²¹ Thoburn and Takashima (1992) define subcontracting as the provision by one firm to another of relatively specialised inputs under contracts entered into over a period of time such that, at the least information is exchanged and prices negotiated as part of a relationship between the firms.

Similarly hawkers who typically need little capital but who, due to their marginal status, have limited financial resources are forced to seek finance for the purchase of goods. This will often mean that they are tied to buying the goods from one shop and are therefore in some form of dependent wage employment (Bromley 1982).

2.4.4 Reserve army of the poor or survival enterprises?

The reserve army of the poor comprises those petty commodity producers that have been so marginalised that their economic activity is at or below subsistence levels (Gerry and Birkbeck 1981). The dissolution process is therefore almost complete as many start to sell their labour on a temporary basis rather than continue working full time in their enterprise (Le Brun and Gerry 1975). Proletarianization however is not complete at this stage. As Gerry writes:

'This term is not intended to imply that petty producers will become permanent wage workers en masse. In the context of underdeveloped countries, proletarianization is a process which partially and/or intermittently draws sections of various types of petty producer, the unemployed, migrant etc. into direct relations with industrial and/or commercial capital' (1978: 1160).

They therefore become a pool of labour that is available for the formal sector in times of economic expansion (Mead 1994). It therefore acts as a social security buffer for the industrial work force as it faces booms and slumps (Bromley 1978). It should also be noted that this tendency is more exaggerated at the periphery of capitalism than at the centre.

In times of recession or when the formal economy cannot absorb new workers, the informal sector increases (Rogerson 1988a), but it is only in numbers of enterprises that have low capital requirements. For example, hawking is a survival niche commonly taken up at times of household crisis such as unemployment or illness (Rogerson and Hart 1986). Such survival enterprises are also characterised by the development of home based enterprises and household labour which need less working capital and allow members to move into and out of waged employment when there are opportunities for such work (Snyam 1990). The net result, however, is the continued marginalisation of those types of enterprises and lower incomes, as a growing number of enterprises compete in a stagnant market (Sandbook 1982).

Research in South Africa suggests that much employment in the informal sector is supplementary to formal wages (Krige 1988, Maasdorp 1983a, CSS 1991). Krige suggests that 'it appears that the major function of the informal sector is to redistribute formal sector wages towards the poorer section of the Kwa Mashu community' (1988:183). Studies of car washers and garbage pickers (Booth 1986 & 1987, De Kock 1987) have shown how such enterprises allow people the chance to earn a living while they search for waged work in the formal sector, but in an environment in which it is virtually impossible for such enterprises to grow into PCP or capitalist enterprises. They therefore exist as the lumpenproletariat, meaning wage labourers in waiting.

For many micro-enterprises this is an extreme form of marginalisation in which there is little or no hope of either formal employment or the development of their enterprise. Estimates indicate that 80% of black South Africans involved in the informal sector in South Africa earn below the minimum standard of living (Ligthelm and Kritzing-van Nickerk 1990). The exploitation is masked by the 'social illusion that one day they will become petty producers...or perhaps big entrepreneurs' (Le Brun and Gerry 1975). In such cases the financial decisions made reflect survival strategies in a situation of extreme capital scarcity. In a situation in which the majority

of finance comes from the re-investment of profits (House et al 1993) a situation of low savings, low investment and stagnation re-creates itself for survival enterprises.

While much of the literature sees the dissolution process resulting in the proletarianization of PCP owners into temporary survival enterprises, evidence particularly in South Africa (Nattrass 1987) indicates that such survival enterprises are likely to be long term. This is largely due to the failure of economies to structurally transform and absorb the reserve army of labour even in periods of growth (Rogerson and Hart 1986, House et al 1993). Enterprises are therefore an employment option for the illiterate and marginally educated who stand little chance of obtaining a job in the formal sector (Davidson and Stacey 1988, Booth 1986). Marginality therefore means the creation of a surplus labour population whose existence exerts no downward pressure on wages and are therefore provide no function for the capitalist sector (Roberts 1978).

Survival enterprises tend to be mainly owned by women (Cross and Preston-Whyte 1983, Nattrass 1987) who adopt a livelihood approach in which both survival and security objectives dominate that of growth in the enterprise (Grown and Sebstad 1989, Noponen 1991). Therefore it is not just a short term survival measure, but rather a long term supplement to household income (Krige 1988).

This thesis seeks to identify the role that financial needs and options play in the decline of PCP enterprises into survival enterprises. Focus is on how scarcity of finance perpetuates survival enterprises and the types of finance reducing methods such enterprises adopt when faced with such a situation. Financial needs are therefore seen as playing a role in either maintaining people in self-employment as the very marginalised or in pushing people into forms of disguised or dependent wage employment in the search of more finance (Birkbeck 1978). The question is how does this work and what is the exact role of finance in this process (Chapter 6)?

H2: IN A SITUATION OF SCARCE FINANCE THE FINANCIAL OPTIONS TAKEN BY MICRO-ENTERPRISES LEAD EITHER TO MARGINALISED SELF-EMPLOYMENT OR DISGUISED AND DEPENDENT WAGE EMPLOYMENT.

2.4.5 Competing and complementary linkages

The informal sector is needed by the formal sector. It provides a service to the formal sector through the provision of cheaper goods and services which therefore allows capital to keep wages low (Beavon and Rogerson 1982). For example the development of the black taxi industry in the last twenty years has meant it is now the main form of short distance transport in South Africa (Matjila 1990). This means that workers and consumers can be transported easily to formal work places and shopping areas. International experience suggests that micro-enterprises do facilitate the paying of lower wages in the formal sector (Davies 1979). However it would appear that there is little evidence in South Africa that the existence of the informal sector facilitates capitalists in paying lower wages (Rogerson and Hart 1986).

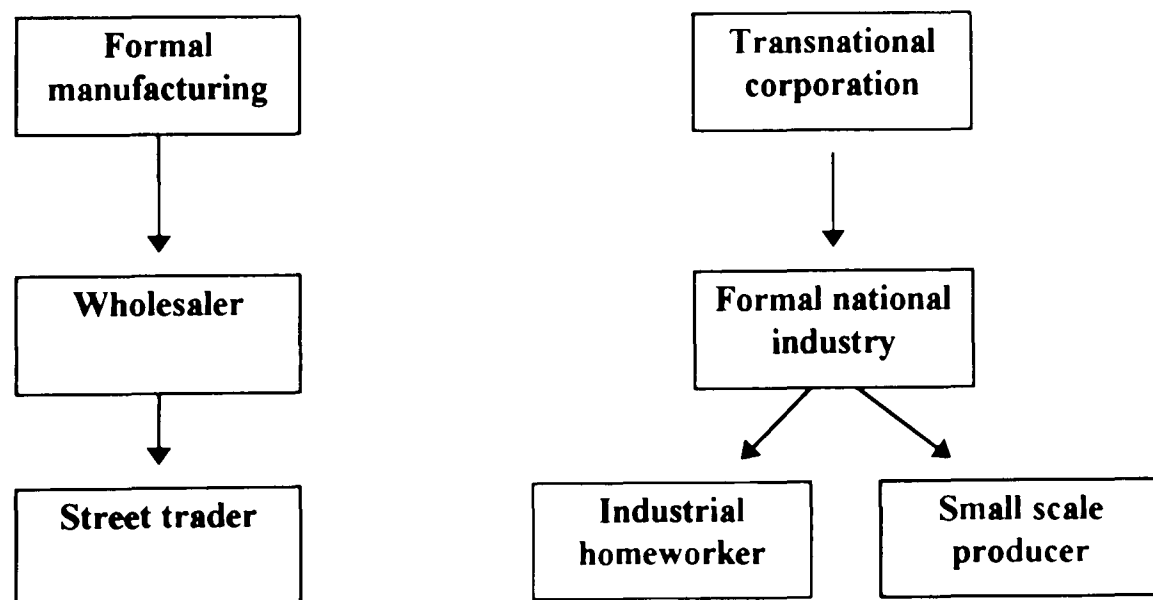
Micro-enterprises play a contradictory role in both complementing and competing with the formal sector (Wilkinson and Webster 1982). The fluctuations of these two forces enable it to be seen as a continually transforming form of production (Gerry 1978). It is a provider and circulator of a large market for the formal capitalist economy (Wellings and Sutcliffe 1984). Formal capital which concentrates on scale economies, up-market tastes and relatively large capital/labour ratios cannot directly reach such markets, but highly competitive micro-enterprises can provide their

products cheaply and efficiently by selling at lower prices, making them available at different locations and for longer hours. In South Africa, while spaza shop prices are often higher than prices in town, when transport costs and the issue of perishability are taken into account then prices may well be cheaper (Wellings and Sutcliffe 1984).

The functionality of street traders for capitalism is simple in 'that even when the poorest consumer has a need which capitalism can satisfy, someone is there to meet that need. They, therefore, widen the market share for the formal capitalist economy, without forcing it to change its inherent structure (De Oliveira 1985). For example it is estimated that there are 66,000 spaza shops (1/40 households) in formal metropolitan areas (Scott-Wilson and Mailoane 1990) with a turnover of 15-20 billion Rand (Marketing Mix 1989). The majority purchase their goods from the formal sector and therefore the formal sector identifies it as a growth area²² (Maasdorp 1982). For example, a survey of spaza shops in two townships in Durban found that 75% of spazas used wholesalers to stock their stores either exclusively or in conjunction with other types of retailers (DRA 1994a).

Micro-enterprises may also play a significant role in commercialising and developing consumption needs (Rogerson 1990, McGee 1971). Alternatively the formal sector produces goods it cannot widely market nor can it create sufficient employment to ensure they are purchased. The informal sector acts to do this²³. There is little that is indigenous about the commodities or about their exchange. The retail sector caters for a population whose needs are shaped and determined by an industrial economy (Hansen 1980, Rogerson 1990). Rogerson (1988a) identifies the following relationships in South Africa (see Figure 2.5). These are mainly backward linkages since few forward linkages exist (May 1993). The relationships are therefore dependent ones in which the dominant benefit is to formal capital (Birkbeck 1979).

Figure 2.5 Linkages between the formal capitalist sector and micro-enterprises



²² 77% of firms surveyed viewed the informal sector as a growth area in South Africa (Hirshowitz et al 1991)

²³ Finance week (1990) shows how a number of companies are seeking to develop new strategies to sell through spaza shops and that one out of every two spaza shops has access to a Metro cash and carry card.

Micro-enterprises also face competition as they grow. They either grew into small enterprises or face such strong competition from formal capital that they contract or fail. But this competition is often unequal with the formal sector taking advantage of its access to capital, political lobbying and its dominant position in the market. For example TNCs use their technology, capital and scale to establish patterns of demand that micro-enterprises cannot meet. It is only where the market can be better served by the informal sector that it will succeed, for example due to a niche market or location (Basok 1989).

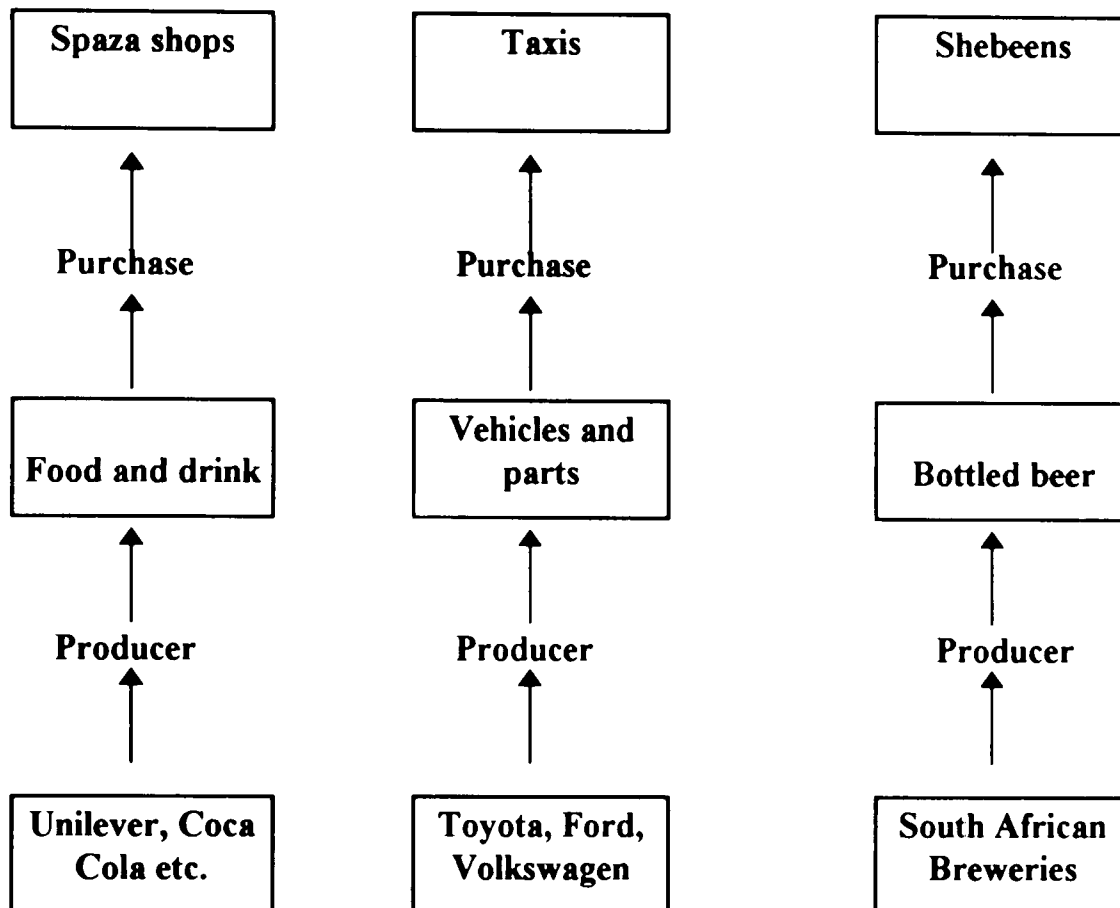
In Booth's (1986) study of marginalised car washers the financial decisions of the car washers and their competitors, the formal garages, are influenced by different forces. The car washers have to rent equipment from taxi drivers to work and cannot increase prices to cover the costs of any investments due to the strong competition from other car washers, while the formal garages have capital to expand into waxing and polishing and are backed by large multinationals operating in an oligopolistic market. With the price of fuel fixed by the state, the operation of additional services like car washing by garages may be aimed at increasing custom rather than maximising the return on the washing.

It is no coincidence that the three main types of micro-enterprises in urban South African communities are spaza shops, private kombi taxis and shebeens (Nattrass 1990b). Each has complementary links²⁴ with respectively the large food manufacturers (e.g. Unilever), car manufacturers (e.g. Toyota) and breweries (e.g. South African Breweries).

The thesis argues that as a result finance is more readily available to these types of enterprise than other forms of enterprise which do not have a complementary relationship with the formal sector. How far this is a reflection of the inherent nature of capitalism and how far a deliberate policy is unclear (Chapter 10). (Figure 2.6.)

²⁴ Marketing Mix (1989) identifies that the 30,000 small shebeens in Gauteng have a turnover of R1 billion Rand, while taxi investment was R3 billion on vehicles, 800 million litres on fuel and R800 million on spares annually.

Figure 2.6 Complementary relationship between the formal capitalist sector and micro-enterprises



H3: IMPROVED ACCESS TO FORMAL FINANCE IS ONLY AVAILABLE TO MICRO-ENTERPRISES WHICH COMPLEMENT RATHER THAN COMPETE WITH FORMAL CAPITAL.

2.4.6 Macro situation

One of the important aspects of petty commodity production is its assertion that the development of the informal sector is not separate from that of the formal capitalist economy and the wider political economy (Bienefeld 1979, Tokman 1989). It is therefore necessary to understand the processes at work both at the national and international level as well as at the individual micro level (Long 1977).

Dependency theorists (Amin 1974) help to explain some of the resulting inequalities, although it is necessary to be cautious about assuming all aspects of life in the South can be explained by such power relations (Smith 1986). These theorists provide useful insight by observing that developing countries are characterised by a modern sector geared to export and luxury goods and a marginalised non-capitalist sector. In larger economies, such as South Africa, the capital goods sector has also developed. The resulting lack of a strong internal mass market and the dependence on technology and capital intensive production lead to the marginalisation of economic activity outside of these activities (Stewart 1974).

The nature of the resulting South African economy is that it is structurally unable to employ the increasing numbers of its urban work force in the capitalist economy²⁵. At present population growth necessitates the creation of 350,000 jobs per year, yet in the period 1980-86 there were actually 146,000 fewer jobs (Rudman 1988). The capacity to absorb people joining the formal labour force has dropped from 70% in 1960 to less than 8% in 1992 (DBSA 1992). The percentage without formal employment during that period has as a result risen from 33% to 51% (World Bank 1993). The result is an ever increasing body of surplus workers and a continually expanding informal economic sector. This has been further exacerbated by the underdevelopment of rural areas resulting in a continual stream of job seekers into the urban areas (Beavon and Rogerson 1982).

At a national level the high concentration of private and state enterprises has created an economy characterised by oligopolist and monopoly structures (Seidman 1977). By 1983 it was estimated that 10 conglomerates dominated the first world sector (Financial Times 1992). Centre periphery capitalism is perpetuated by this structure that ensures the economically strong private and state firms remain strong and continue to grow.

What is the role of finance in this process? In the case of South Africa, given the centre periphery relationship between it and the developed capitalist world, financial markets have played a part in distorting the relative prices of labour and capital. As a result the economy has become structurally unbalanced with a well developed formal mining and industrial sector and an underdeveloped rural and informal sector (Jones 1988, September 1986). For example, the capital to labour ratio in South Africa has increased every year, with one exception, for the last forty years (Bethlehem 1991).

The finance institutions in South Africa are well developed and sophisticated (Jones 1988). According to neo-classical theorists this should improve the overall efficiency of domestic resource mobilisation and allocation (Fry 1988), but a closer examination reveals that they are geared primarily to financing the formal sector (Munro 1988).

The banking system grew out of the needs of agriculture in the 19th century, but the development of deep level gold mining in the late 19th century meant large amounts of capital were needed (Stadler 1987). Since 1940, with the development of a manufacturing sector, banking has developed to serve the needs of these sectors (Munro 1988).

The relationship between the finance institutions and other companies is a very close one (Jones 1988, Porteous 1991). There is therefore the potential for the capitalist sector to control these institutions (Forbes 1981b). The move towards increasing capital intensity in the formal sector has been helped by the relative cheapness of capital to labour and the availability of equity capital (Economic Focus 1989). The actions of these institutions along with government policies on taxation and import substitution have therefore tended to distort the working of the market in relation to factor prices and economic investment. As a result South Africa has a large and increasing proportion of its labour force which is structurally unemployed. Micro-enterprises becomes their only option for income and survival.

Finally any study of South Africa cannot ignore the role of the state in the establishing and maintenance of the old apartheid system (Lipton 1986, Southall 1980). While the tools used were primarily legislative (Rogerson and Hart 1986, Hesketh 1989b) the effects on the economy were

²⁵ The urban population is growing due both due to natural population growth and rapid rural-urban migration (Bethlehem 1991).

widespread as the apartheid regime sought to marginalise its black African population as urban sojourners as long as their labour power was needed (Simon and Birch 1992, Tager 1987, Seidman & Seidman 1977, Wilson and Ramphele 1989). As Stadler writes:

‘The really significant feature of the South African political economy, which explains its difference from that of other states in the region is the extent to which it was controlled by a domestic political class, by the pressure of the local bourgeoisie, and by the increasing intimate links that developed between this bourgeoisie and the state’ (1987:22).

While much of the apartheid legal system has been dismantled (May 1992) the effects of nearly fifty years of apartheid rule will continue to be felt in all areas of South African life (Khosa 1994a, Beavon and Rogerson 1990, May and Schacter 1991).

2.5 *Financial institutions in developing countries*

Finance is of central importance to micro-enterprises to meet its various needs. Financial institutions, through the provision of credit, provide one such alternative. Financial institutions act as an intermediary between those that have surplus investable funds and those who have shortage of finance and by specializing and reaping the economies of scale they are able to match these two needs (Fry 1988).

In a perfect world financial institutions would balance out the supply and demand for investable funds. However in reality this is far from the case particularly in the developing world where there are serious imperfections in the markets and in the workings of financial institutions (Hoff and Stiglitz 1990). This section reviews the financial institutions that meet the needs for finance and develops a number of hypotheses about the linkages between formal and informal finance and between finance institutions and micro-enterprises.

2.5.1 *Financial institutions*

There are three types of institutions that provide credit for enterprises: formal, semi-formal and informal credit institutions. Chandavarkar defines informal institutions as:

‘all legal but officially unrecorded and unregulated financial activities and transactions which are outside the orbit of official regulated institutional finance’ (79:1989).

Using this definition for informal institutions there is a continuum of institutions from formal to informal; each group is not separate but needs to be seen as part of this continuum.

2.5.1.1 *Formal credit institutions*

The formal sector was, up until the 1980s, seen as the main source of credit for micro-enterprises (Seibel 1989a). The main institutions to have historically channeled these funds, particularly from the World Bank, were the Development Finance companies. However these had a number of disadvantages: they required a complex appraisal procedure, they were too centralized and they had few branches. All this discouraged the financing of micro-enterprises. Since then, but also before, the commercial banks have proved to be the main option for formal finance to micro-enterprises within the sector (Balkenhol 1990). However given the lack of collateral, the inability

of many micro-enterprises to demonstrate business acumen via documents, the imperfect information markets and the cultural and information gap between white decision makers and illiterate poorly educated black men and women, banks rarely lend to micro-enterprises²⁶ (Taskgro 1993, Hoff and Stiglitz 1990). It is also important to consider the role of banks and particularly post offices as savings institutions (Vogel 1984, Meyer 1989b).

2.5.1.2 Semi formal institutions

Seibel (1989b) has identified semi formal institutions as being the intermediaries between micro-enterprises and banks. These institutions may operate like more formal financial institutions in the absence of poorly functioning formal institutions (Miracle et al 1980), but may have no firm legal basis; hence the semi formal status. Three main groups exist.

2.5.1.2.1 Rotating savings and credit funds (ROSCAs)

These have been studied in a number of countries (Bouman 1979, Ardeners 1964, Ardener and Burman 1995) and demonstrate the propensity of the poor to save. Saving is an automatic reaction when production and consumption cycles do not match and acts as a provision for the future (Holst 1984). Therefore in a community there is always a stock of liquid savings. ROSCAs operate by allowing this money to be pooled and used by that community. It is a survival orientated measure for people sensitive to risk (Bouman 1979).

In South Africa stokvels²⁷ have traditionally been viewed in the literature (Kuper and Kaplan 1944, Burman and Lembete 1995) as ROSCAs²⁸. However other writers point out that while stokvels may sometimes rotate their payments, they do not typically provide credit in rotation to their members, but rather they facilitate regular saving with distribution of the money at the end of a period, typically a year (Molefe 1991, Thomas 1991a). Credit is however provided by some as a form of interpersonal lending when shortfalls in the household budget occur (Cross 1987). It is therefore more accurate to view them as covering a spectrum of functions from savings clubs (Holst 1984, Begashaw 1978), to various forms of savings and credit provision (Thomas 1991a).

2.5.1.2.2 Group credit schemes

The most well known and studied group credit scheme, now a formal institution, is the Grameen Bank in Bangladesh (Hossain 1988). This aims to 'bring the bank to the village'. Its central characteristic has been to replace the need for collateral with group

²⁶ Banks traditionally use the four Cs of collateral, capital, character and capacity, but the first two are generally non-existent in the informal sector and the last two are difficult for banks to assess.

²⁷ The origin of the word stokvel is unknown, but it is thought to possibly come from the term 'stockfellows' who are a group of men who pool their money to buy a head of cattle at a stockfair (Du Toit 1969).

²⁸ Kuper and Kaplan identified that each member paid a fixed sum of money each week or month and when his turn came he or she would receive the total amount for that period from the members.

liability²⁹. Costs are reduced to a minimum because of the group liability and group supervision over assessment, processing and repayment of the loan. Bratton (1986) points out that group liability can be individual or joint, mandatory or voluntary. Each may work: the key feature is the level of cohesion.

2.5.1.2.3 Individual credit programmes

Ashe (1981) provides a useful distinction between group, individual and community programmes. These are typically run by NGOs and para-statal organisations. Like the formal system there is a conflict between the minimalist approach which tries to keep costs down and more integrated approaches that try to reduce risk (Devereux et al 1990). Individual schemes can be divided into those that aim to charge a realistic interest rate and those that subsidize credit. The majority of programmes tend to be in the second of these groups.

2.5.1.3 *Informal institutions*

Informal institutions are all those institutions that operate outside of regulations and government legislation. They can be divided into a number of different types (Adams 1992).

2.5.1.3.1 Non-professional lenders

Non-professional lenders are typically household member). Loans are typically for short periods, and no interest is charged, although reciprocity is often included in such transactions (Malkamaki 1990).

2.5.1.3.2 Full time moneylenders

Moneylenders exist in most societies and operate both as full and part time lenders. There are no formal criteria for selecting and processing a loan; rather lenders rely on contacts and their own knowledge of the individual and the business sector concerned. Transaction costs are kept to a minimum since there is limited paper work, no legal documents are used and clients are all local. It is also normally run as a family enterprise with limited requirements for labour and office facilities (Christen 1992).

2.5.1.3.3 Brokers

It is not clear how widespread brokers are. Certainly in the more developed informal financial markets of Asia they have been recorded (Lamberte 1991). Their role is to facilitate contact between lenders and borrowers. They trade on inside information and potential clients. Chimedza (1989) points out that the central role is of someone who can be trusted and held in confidence by both parties.

²⁹ The Grameen Bank has good rates of repayment (95%) and has been able to provide loans charging interest rates of 20%.

2.5.1.3.4 Pawnbrokers

Pawnbrokers provide small scale credit based on collateral (Shanmugam 1991). There is no assessment of the ability to pay. Rather, physical collateral (e.g. jewels and electrical goods) are actually handed (pawned) over to the pawnbroker. It is essentially a sale-purchase arrangement between two parties that is attractive to both; actually in that sense it is not a form of credit. Pawnbrokers also provide a very fast service. Although the broker will sell the collateral if necessary it appears that they would prefer to have the money repaid. This avoids the costs of selling the goods and ensures that the client will maintain his relationship with the broker.

2.5.1.3.5 Trade and customer credit

Chimedza (1989) points out that often proof of regular earnings is required before credit will be given on trade items. As regards customer credit many micro-enterprises actually have to provide credit to their customers in order to keep customer loyalty. Small traders will often provide credit to people who are on regular fixed salaries to be repaid at the end of each month. It does not appear that this functions in reverse with people depositing part of their money in the shop at the beginning of the month before purchasing any goods. However in the construction and certain manufacturing enterprises (e.g. carpenters) work is more likely to involve a credit component in its financing.

2.5.1.3.6 Employer credit

Another area that is found to be neglected is the role of formal enterprises and Unions as providers of credit to their employees and members (Chimedza 1989). These schemes have the advantage of good information about the clients and their financial status.

2.5.1.3.7 Money deposits

In areas where there are no formal banking facilities people may use small shops as banks by depositing small amounts of money with the shop for safe keeping (Cook et al 1990). No interest is charged and the main service provided by the shop is to act as a deposit box. The money can be used for investment while it is with the shopkeeper.

Having reviewed the literature on financial institutions it is necessary to review how they provide credit in South Africa.

2.5.2 Finance institutions and lending in South Africa

Micro-enterprises have little knowledge of formal financial institutions and very limited access to credit (Nattrass and Glass 1986, Manning 1993b). This is despite the well developed banking system (Strauss 1992, Price Waterhouse 1991). Estimates of micro-enterprises who were able to obtain loans from a bank range between 0% and 9%. Credit agencies such as the Small Business Development Corporation (SBDC), which were set up to assist small and micro-enterprises, have

tended to perform no better and have been viewed as having a bias towards the formal small business sector³⁰ (Krige 1985, Manning and Mashigo 1993, SBDC 1991). International experience shows that it is more likely for a firm with a given track record and an owner who has basic literacy and numeracy to get assistance (World Bank 1993). Historically as a result it is the white Africans who have had the access to such finance because of the advantages they gained under apartheid.

However a large number of NGOs³¹ have been involved in providing credit to micro-enterprises, although their impact on a national scale is rather limited due to their very limited geographical coverage (Get Ahead 1995).

Informal finance is of limited importance. Trade credit would not appear to be common (Broom and Joyce-Clarke 1990) although research on hawkers emphasised its role in creating dependent forms of employment (Koch 1990). Cross (1987) identified the role of stokvels in providing 'interpersonal debt obligations', but it is unclear how this relates to enterprise finance. The only formal credit that seems to be more readily available for micro-enterprises is hire purchase. While hire purchase has long been recognised as being available to poorer communities in South Africa (Hellmann 1948, Wilsworth 1979) its role in provision of business finance has been sadly neglected (Reynolds 1995). Its decision procedures and mechanisms ensure loans are not made for working capital to micro-enterprises, but it does provide credit in the form of hire purchase to large numbers of micro-enterprises and customers who work in the informal sector for the purchase of capital items bought in the formal sector.

This thesis argues that the hire purchase mechanism is primarily used not because it provides security in the lending process, but rather that it is the need of the formal capitalist economy to sell factory produced consumer goods on credit to informal businesses that is the motivating factor. The case of the growth of the taxi industry illustrates this point. Khosa (1990) argues that the growth in the sector would not have been possible without the active involvement of big business and finance capital. SABTA facilitated the merger of finance and taxi operators by providing a stable body to act as a guarantor in their investments³² (Matjila 1990), but it was the need of formal capital to sell vehicles that was the driving force behind the rapid expansion of access to such finance. Micro-enterprises are therefore dependent on what the formal capitalist economy needs to sell, and therefore will provide on hire purchase, in their search for access to credit.

The argument is not so much that it is a deliberate policy by the banking sector to exclude micro-enterprises, but rather a reflection of the inherent logic of the capitalist system, the close ties between finance and manufacturing (Jones and Scott 1992) and the structures that it supports, namely the banks.

H3: IMPROVED ACCESS TO FORMAL FINANCE IS ONLY AVAILABLE TO MICRO-ENTERPRISES WHICH COMPLEMENT RATHER THAN COMPETE WITH FORMAL CAPITAL.

³⁰ For example only 11% of its loans were in the form of mini-loans (Financial Mail 1989)

³¹ The majority of these NGOs are very small, but a number of the larger one include Get Ahead, IBEC and ACHIB.

³² Previously finance houses had been unwilling to finance taxi operators because few had credit records or references, they kept no books of accounts, there was little awareness of their profitability and there were cases of racial bias (Khosa 1994 a).

2.5.3 Finance institutions and savings in South Africa

Finance institutions not only lend money but also act as institutions for saving. Savings is the forgotten half of financial intermediation (Meyer 1989b). In South Africa there is a widespread network of informal savings institutions that are in effect linked to the formal institutions. Two factors are important in understanding savings mobilisation.

1. While significant amounts are saved and banked with formal institutions by the black population, often from informal activities, little is then lent back to these businesses. Stokvels play a major role in this with recent consumer surveys suggesting as much as R83m (£10m) is saved each month (Scott-Wilson 1991). There is therefore an actual net transfer of investible funds from the black informal sector to the white formal sector.
2. The majority of savings in South Africa are in the form of corporate savings and the growth in life assurance and pension funds. Given the high degree of monopoly power within the formal sector it means that little is invested outside their direct spheres of their interest. In addition they tend to be very risk averse and seek maximum returns for a fairly low acceptable level of risk (Porteous 1991).. This means they will lend typically to the formal capitalist sector.

The result of this is that financial institutions act as a channel for the outflow of funds from informal settlements, where micro-enterprises are located, to the modern formal sector and as a result the mobilisation of these and other funds is discouraged from being re-invested in micro-enterprises (Chapter 8).

H4: INFORMAL FINANCIAL INSTITUTIONS ARE SUBORDINATED TO THE NEEDS OF THE FORMAL CAPITALIST SECTOR

3. Research methodology

'Frankly, it seemed then, and seems now, that the justification for fieldwork, as for all academic endeavour, lies not in one's contribution to the collectivity but rather in some selfish development. Like monastic life, academic research is really all about perfection of one's own soul. This may well serve some wider purpose but is not to be judged on those grounds alone.'

(Barley 'The innocent anthropologist: Notes from a mud hut', 1986: 8)

3.1 Introduction

A neo-marxist approach appears to provide the best frame of reference for explaining the condition of much of South Africa's urban employment and under-employment both from the literature (2.2.3.) and the researcher's own experience of developing the research questions during the preliminary field work in 1992. The researcher finds the analysis especially useful in terms of identifying some of the dynamics and contradictions that exist in the informal sector and the finance of micro-enterprises.

The review of the literature defined the role of finance in relation to petty commodity production and has developed a number of hypotheses. What is not in dispute is that finance plays a central role since without finance economic activity is restricted to bartering. The issue is whether the financial options and needs adopted by micro-enterprises just reflect the nature of petty commodity production or actively contribute to the process of growth or decline in micro-enterprises. This chapter will operationalise these terms and describe the methodology used in proving the four hypotheses. It will then critically examine the research and identify the various risks and assumptions involved with such an approach

3.2 Research and theory

The approach taken in this thesis is to use existing theory for the explanation of micro-enterprise development in a squatter community in central Durban. From this general theory four hypotheses have been derived based around the potential role of financial needs and options of micro-enterprises.

H1: Financial needs and options used by micro-enterprises lead to the dissolution of petty commodity production.

H2: In a situation of scarce finance the financial options taken by micro-enterprises lead either to marginalised self-employment or disguised and dependent wage employment.

H3: Improved access to formal finance is only available to micro-enterprises which complement rather than compete with formal capital.

H4: Informal financial institutions are subordinated to the needs of the formal capitalist sector.

Once these have been restated as testable propositions the task of the researcher is to collect and analyse data (De Vaus 1986). Order and structure are imposed on the material by the research questions which provide a conceptual framework within which the analysis can then be organised.

3.3 Operationalisation of propositions

Theoretical terms used in the thesis must be defined in a way that both maintains the distinct theoretical nature, but at the same time allows the terms to be utilised in the field work and analysis of the data. In other words the first task is to operationalise the various propositions.

Three terms discussed in the literature review are central to the understanding of the process of conservation and dissolution; capitalist enterprise, petty commodity production (PCP) and the marginalised or reserve army of the poor. The transformation of such propositions into operational terms is not easy. The literature indicates that in most cases there has been little systematic attempt to create usable field terms for these theoretical definitions. This is in part due to the overlapping and ambiguous nature of petty commodity production, but also reflects a research gap. Therefore the research has sought to identify characteristics that enable distinctions to be made between capitalist enterprises, PCP enterprises and survival enterprises.

3.3.1 The distinction between capitalist enterprises and PCP enterprises

One of the main differences between capitalist and non-capitalist forms of production is that in the latter the owner of the form of production is also a producer while in the former the owner will be concerned in part with the organisation of the work force (Middleton 1989). In non-capitalist forms of production the owner of the form of production is also the worker, producer and seller. In contrast in capitalist enterprises the owner of the form of production is either fully or partially concerned with the organisation and management of the enterprise and its work force. In operational terms this can be defined in terms of whether paid employment is used in the enterprise or not. Capitalist enterprises are therefore those enterprises which either fully or in part employ labour, while PCP enterprises are those in which all labour functions are carried out by the owner or by household members who are not directly remunerated for their labour. Labour in such a case functions through a mix of capitalist and non-capitalist motives for which the reward is neither in the form of wages nor in a specific share in the ownership or profit of the enterprise.

Therefore the classification of capitalist enterprises relates primarily to the employment of paid labour. The research has chosen a fairly broad definition of paid employment to include any employment where there was a clear commitment on the part of the owner to pay a sum of money to the worker in exchange for working in the micro-enterprise. In some cases this included household employment where an extended household member worked in the micro-enterprise. It could therefore be argued that this still involves employment which is based on a set of non-exchange values. However, while this is recognised it is clear that such employment is to some extent, however limited, a reflection of an inherently capitalist enterprise.

3.3.2 The distinction between PCP enterprises and survival enterprises

PCP enterprises represent a transitional form of production in which there is an incomplete separation of labour from the means of production (2.2.6.). The mode is non-capitalist, but is continually being articulated through and by capitalism. This results in what Wellings and Sutcliffe (1984) call the mix of exchange-values and use-values in explaining what motivates people to work in the informal sector. Traditional values, customs and non-capitalist functions therefore play as much of a role as those geared to the accumulation of wealth. In contrast survival enterprises (2.4.4.) represent those PCP enterprises which have been so marginalised that the economic activity is at or below subsistence levels (Gerry and Birkbeck 1981) and they operate as survival enterprises. The marginalisation of such enterprises is such that there is little or no chance of growth in the micro-enterprise and what growth is involutionary. Survival enterprises are therefore those enterprises which are generating very low or zero profits, in which there appears to be little or no chance of growth and in which the owner may go intermittently in and out of waged employment in search of income.

The distinction between PCP enterprises and survival enterprises therefore reflect the degree of marginalisation between the enterprise and the wider economy. Such relationships are never clear and exact and the researcher therefore needs to sift through the information available to him before classifying any enterprise. In practice this was relatively easy through combining the various indicators identified in Table 3.1. However in a number of instances the distinction was particularly blurred. To avoid such problems the following guidelines were adopted for using the characteristics. Survival enterprises were mainly retail enterprises run by the owner and characterised by no accumulation of capital (fixed or current assets), the purchase of only fast turnover goods, which are purchased less often than other types of enterprises (weekly in the case of Cato Crest) and operated typically from outside the owner's home or door to door with no commercial signs advertising the enterprise. In contrast PCP enterprises were run by a mix of owner and household labour from premises located in the owner's home, have in the past accumulated capital, and buy and sell a mix of products, typically replenishing stock daily. The key issue was the level of integration into the formal capitalist economy by the micro-enterprises. For example, if goods were purchased from a wholesaler rather than the market the enterprise was viewed as being a PCP enterprise rather than a survival enterprise.

As can be seen from Table 3.1 there is a lot of overlapping in the definitions. In order to resolve this it is necessary to use qualitative research techniques. These are vital in enabling judgements to be made on enterprise classifications that involve distinctions in employment, enterprise activity and observation. As a rule the differences higher up the table were of more significance than those lower down.

Table 3.1 Characteristics of micro-enterprises

	Capitalist enterprise	PCP enterprise	Survival enterprise
Employment	Paid employment	Unpaid household employment or none	None
Enterprise activity	Accumulation of capital	Occasional accumulation of capital	No accumulation
	Buy a mix of fast and slow turnover goods	Buy a mix of fast and slow turnover goods	Buy only fast turnover goods
	Buy daily and large weekly orders	Buy daily	Buy weekly
	Mix of enterprises	Mix of enterprises	Mainly retail
Observations	Buildings more permanent, and separate from the enterprise	Residence used for the enterprise	Use table outside house or selling door to door
	Signs for the enterprise	Signs for the enterprise	None

3.3.3 Characteristics of disguised and dependent employment

Additional types of employment were discussed in Chapter 2 (2.4.3.). The research uses Bromley and Gerry's (1979) definition of two types of employment; disguised wage work and dependent work. These categories are not exclusive and people may belong to a number of categories both over time and at any given moment in time.

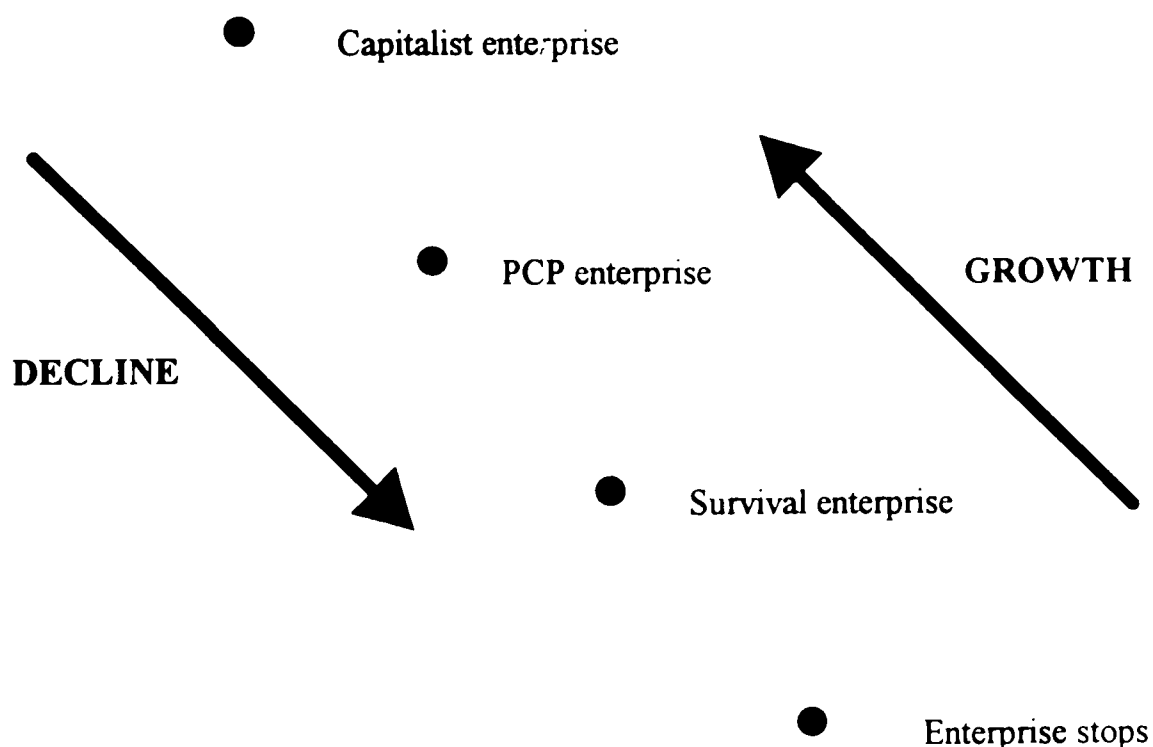
Disguised wage work is defined by Bromley as being where '...a firm or group of firms regularly and directly appropriates part of the product of a person's work without that person legally being an employee of the firm or group of firms' (1979:6). This would include outworking, subcontracting and commission selling.

Dependent work Bromley defines as where the worker '...is dependent upon one or more larger enterprises for credit, the rental of premises or equipment, a monopolistic or oligopolistic supplier of raw materials or merchandise or a monopsonistic or oligopsonistic outlet for his production' (1979:6). This is less clear cut since it is necessary to understand how the enterprise is operating before the case of any appropriation of part of the product of the workers labour can be ascertained.

The distinction between conservation and dissolution

Having identified methodologically the classification of micro-enterprises into capitalist, PCP and survival enterprises the last step is to clarify the terms 'conservation' and 'dissolution'. These terms in part reflect the aggregate process of change within the whole economy rather than relating to individual changes in enterprises. Therefore in operationalising the term an aggregate figure for changes in each classification has been used. However while the use of aggregate changes in enterprise types is reductionist in the sense that it ignores qualitative changes in the relationship between PCP enterprises and the capitalist sector it does provide an approximation of which process is at work. Changes in these aggregate figures over time will then indicate whether the process of conservation or the dissolution of petty commodity production has occurred (Figure 3.1).

Figure 0.1 Growth and decline of micro-enterprises



The result of this process of growth and decline in individual micro-enterprises can be reflected in an aggregate figure for each classification. Change in these aggregate figures over time will then indicate whether the process of conservation or the dissolution of petty commodity production has occurred.

Having operationalised the terms the next step is to use them to explore the hypotheses developed in Chapter 2.

- Having defined capitalist enterprises, PCP enterprises and survival enterprises, Chapter 5 will identify any changes between these three classifications that will determine the process of conservation and dissolution. Chapters 6 to 10 will then examine how different financial options and needs identified from Chapter 2 influence this process of growth and change in order to answer hypothesis one.

- Chapter 6 will examine the role of external finance in the process of growth and decline of micro-enterprises and then address hypothesis two, namely that finance leads either to dependent or disguised employment or the marginalisation of employment through the scarcity of finance.
- Chapter 7 will examine the role of waged employment and household expenditure in the process of growth and decline of micro-enterprises.
- Chapter 8 will explore the role of own finance in the process of growth and decline and in addition explores hypothesis four and the subordination of stokvels to the formal capitalist sector.
- Chapter 9 will explore the role of finance saving or reducing measures and partnerships in the process of growth and decline of micro-enterprises.
- Finally Chapter 10 will explore the role of hire purchase in the process of growth and decline of micro-enterprises and in addition examine hypothesis three and the role of hire purchase in relation to the formal capitalist sector.

3.4 Research approach

The research is both exploratory and explanatory and a variety of methodologies were therefore adopted, including occupational biographies, case studies, semi-structured and structured interviews and participatory observation (Sieber 1982).

The purpose of using both quantitative and qualitative techniques is that the data from different sources can be combined to give a more complete picture (McNeil 1990). This type of multiple strategy technique is called triangulation (Berg 1989, Denzin 1978). There has been a long-standing debate over whether qualitative and quantitative techniques can be combined. This research is not seeking to continue this debate but rather to use quantitative data to validate the findings of more qualitative information. The use of combined methods aims to address the three areas of reliability, validity and representation.

As Scharzman and Strauss write 'the field researcher is therefore seen as a methodological pragmatist who sees any method of inquiry as a system of strategies and operations designed at any time for getting answers to certain questions about events which interest him' (1973:7). In short the researcher is concerned with operations that yield profound, meaningful and valid data.

Qualitative techniques were used to provide the preparatory and supportive work while the more structured methods allow data to be quantitatively analysed and compared (Bijlmer 1989). In operationalising the terms it is clear that qualitative techniques are needed in order to make such indefinable and imprecise terms such as petty commodity production and marginalisation meaningful to the research process. The data from the occupational biographies, case studies and participatory research was therefore used to support the validity of, and to question, the hypotheses derived from the literature review and the initial theoretical conceptualisation (Chapter 2). It sought to clarify and sharpen these terms for the use of more quantitative tools (Ferman et al 1987). The qualitative techniques then provided a first stage hypothesis test (Pettitt 1992).

The following approaches have been used in the field work phase of the research.

3.4.1 Occupational biographies

Use was made of occupational biographies (Rusque-Alcaino and Bromley 1979, Bozzoli 1985, Burgess 1982c, Mandelbaum 1982, Mangin 1971). These give an account of everyday life. 'Autobiographies place emphasis upon historical development, the process of change, non routine and specifically memorable processes and events and causality' (Rusque-Alcaino and Bromley 1979:186). It is important to include as much contextual data as possible in order to bring it 'closer to the world' (Hart and Rogerson 1987, Prus 1991). It must also be recognised that the resulting occupational biography is very much an artificial construct of the researcher's priorities and the images the informant projects from the past (Francis 1992). Three areas of bias have been identified relating to memory, interviewing and reconstruction and strategies to be developed to deal with these biases (Tagg 1985).

Bromley's experience was that after the initial interviews people spoke at considerable length and in a continuous narrative (Bromley and Birkbeck 1984). However in South Africa the experience was that initial interviews tended to be rather staccato involving a lot of questions and brief answers and in subsequent interviews people rarely went into much greater detail. To explain this it would appear that in South Africa two forces are at work.

Firstly there was a reluctance to talk openly until a friendship has been built up and trust has been established. A result of apartheid and the oppression necessary to maintain it is a deep suspicion of outsiders and particularly people from a different community. Initially therefore there was suspicion as to why the researcher was asking questions, what was he gaining from it and how would it be used against the community or the individual. Secondly information was given in a 'drip-drip fashion'. Over 10 or 12 visits to a micro-enterprise different pieces of information were gathered as and when people felt like talking. Adequate time was therefore essential to enable interviewees to introduce new information as and when they were ready to give such insights.

In choosing occupational biographies a mix of judgmental and opportunist sampling was used (Honigsmann 1982, McLeod 1980). The purpose of occupational biographies is to permit a longitudinal study of the micro-enterprises with which the owner has been involved and to begin to understand some of the dynamics and processes at work (Moser 1984). The following example adapted from the author's field notes of an occupational biography (interview 57) will illustrate this.

First enterprise (survival enterprise): From 1982 to 1986 while he was at school in the rural areas he sold sweets to other students. *He put money he was given by his family for school fees into the enterprise*

Second enterprise (survival enterprise): Having left school he moved to Inanda with his father and started selling plastic bags in town *with R30 he was given by his father.*

Third enterprise (PCP enterprise): He sold door to door in Inanda. *He used the profits from the plastic bag selling to start selling cosmetics and earrings.* This micro-enterprise grew and he estimates that he was selling R200 a day, although they sometimes had problems with the police.

Fourth enterprise (PCP enterprise): *His enterprise was doing well and so he used the profits from the last enterprise to start selling in town from a table.* He worked in two places since there was no fixed

place to sell in town and it was still illegal to sell on the street. *In June 1987 his stock was stolen from a lock up garage in town and he stopped.*

Fifth enterprise (PCP enterprise): *Having had no work for the rest of the year he started again with R100 lent to him by his sister. The money was lent for three months and then he repaid it, although he did not have to pay interest.*

Sixth enterprise (survival enterprise). During 1989 his enterprise declined *since he his mother died and he sold all the stock to pay for the funeral.*

Seventh enterprise (PCP enterprise). Slowly the enterprise *grew as he was able to re-invest the profits back into the enterprise. From 1989 he joined a stokvel and with the savings he was able to invest in a bigger enterprise.*

Eight enterprise (capitalist enterprise). *In 1993 he had saved enough money to open an enterprise in Cato Crest. He ran this spaza shop, while he employed a woman to work selling from the table in town. However this did not work and the woman stole from his enterprise and so he stopped selling from the table.*

Ninth enterprise (PCP enterprise). He continued to expand the enterprise in Cato Crest and the stock increased rapidly. *In 1994 he bought a fridge on hire purchase and began to increase the size of the spaza shop.*

Tenth enterprise (capitalist enterprise): He decided to employ someone to work in the spaza shop with him because his customers as his refrigerator meant that he could sell a lot of different products. *He continued to save, but this time in a bank account.*

The text in italics illustrates some of the roles of finance in the process as well as some of the complications that a micro-enterprise faces. It is clear that a questionnaire survey would be too rough and imprecise a tool to pick up these details. However an occupational biography on its own is too fine a tool. As Mandelbaum wrote ‘ a life history, like the life itself, is not self sufficient or self contained, nor can it readily be deployed to prove or disprove any one hypothesis’ (1982:148).

Therefore occupational biographies can best be seen as providing clues and guidance for other techniques to develop, although occupational biographies were key in illustrating particular points made in the analysis (McLeod 1980, Forbes 1979). One disadvantage with occupational biographies is that they are reliant on the memory of the interviewee. To reduce the danger of error and bias the occupational biographies were compiled from interviews conducted over a ten month period. This allowed cross checking of information to reduce any internal inconsistencies (Burgess 1982c) and increased verification. However the main point of occupational biographies is to provide a longitudinal study of a number of micro-enterprise owners (Appendix 1).

3.4.2 Case studies

The case studies were longitudinal and compiled from interviews and observations carried out over a ten month period (Rusque-Alcaino and Bromley 1979). The first interviews were in June 1994 and the final interviews were in March 1995. Fifty six micro-enterprises were selected as case studies each being interviewed between five and ten times during this period.

The case studies provide the key material on how and why the process of growth and decline occurs. Traditionally in South Africa (Manning 1993b, Krige 1985, Liedholm and McPherson

1991) research has focused on what is happening at one point in time. Such an approach would provide little information relevant to the questions posed by this research. The need is to understand what is happening over time, what are the factors that cause these changes and what are the dynamics at work.

A case study typically involves the in-depth study of a single example. Sometimes this is extended to a few examples but rarely to fifty cases (McLeod 1980). There is therefore a trade off occurring between coverage and depth. To undertake to interview fifty six enterprises means that the depth of study is less, although experience indicates that this is not as significant as was originally thought. However by interviewing fifty six enterprises there is scope for comparison and while this cannot claim to be a complete sample it can begin to move towards that point. The term case study as used in this research can therefore be seen to reflect a pragmatic option somewhere between a case study and a sample.

The case study interviews followed on from the initial semi-structured interviews with 138 enterprises in Cato Crest. Twenty seven PCPs, twelve capitalist enterprises and seventeen survival enterprises were selected to be the case studies. This choice primarily reflected the ease of access to the individual enterprises, but also reflected an attempt to gain a reasonable geographical spread of micro-enterprises within Cato Crest. In a number of cases the owners were sometimes away, and the enterprise was managed by a household member or employee who knew little about the micro-enterprise details. The argument that this could lead to bias is recognised but in the opinion of the author this is of minimal significance and also reflects a research necessity rather than a deliberate choice to exclude certain micro-enterprises.

The interview schedule varied from case to case, but largely followed the following format. The first two interviews generally revolved around questions from the semi-structured interview checklists (Appendix 2). During this time business advice was offered as a service to the micro-enterprises in exchange for further interviews. The business advice again varied depending upon the needs of the micro-enterprise, but in most cases advice was offered on record keeping and balance sheet preparation. The author found that this not only provided the micro-enterprise with useful tools and skills, but provided the researcher with an opportunity for greater access to information about the micro-enterprise and its operation. The question of bias as a result of such intervention is tackled in section 3.6.4, but suffice it to say at this stage that any bias was very limited and the benefits far outweighed any potential disadvantages.

Since no enterprises in Cato Crest kept accurate records it was only possible to produce a balance sheet. An initial balance sheet at the start up of the enterprise was prepared using information from the enterprise owner (Harper 1976). Present day balance sheets were then prepared by valuing the assets of the enterprise and then subtracting current liabilities (if any) and the original liabilities at the start of the enterprise as far as they were still valid from the total assets to provide the balancing figure for profit re-invested in the enterprise. Subsequent balance sheets prepared during the ten month research period repeated this process. The preparation of a balance sheet for retail enterprises meant that changes in the micro-enterprise could be clearly demonstrated and to some extent explanations for that change found. The balance sheets showed not only the total value of the enterprises at points during a ten month period but also how the various assets and liabilities had changed. However while it is a useful technique it does have limitations, particularly in regard to the re-investing of profit. In cases where no other sources of income are likely to be invested in the enterprise the re-investing of profit is likely to be the main type of liability. However in cases where multiple sources of income are available, such as from

formal employment, it was impossible to state the exact nature of such liabilities without a profit and loss account and accurate bookkeeping records.

Sales records also provided useful insights into how the micro-enterprise operated and how sales and turnover of goods make a difference to the enterprise, although these were in most cases rough estimates or records that excluded a lot of sales or purchases. For example a number of capitalist enterprises kept records of purchases, but restricted this to purchases from wholesalers and therefore other purchases, such as from the market or for bread, were excluded.

Above all the process of offering advice meant that a relationship developed between the owner and the researcher. This is key when the researcher is unclear about all the types of data and answers that are needed. For example it was discovered that one capitalist enterprise in effect charged an implicit interest rate on the credit he gave to his customers. This, however, was only picked up in conversation in a car on the way to a wholesaler.

Finally multiple visits to enterprises meant that inaccuracies in first and second visits were resolved. It was a constant theme of the research that information given initially was subsequently revised as people reflected on what they had first said. This is not surprising when it is considered that the research is primarily being undertaken in an oral society in which there are no records. Secondly there was a sense that people the first time they were interviewed sometimes said a figure either to please you or for fun. In one case a woman said she was the sister and then later said she was the wife. When asked why she just laughed and said it was fun to say that. Again it is these discoveries that confirm the need for a mixed strategy of qualitative and quantitative techniques.

3.4.3 Surveys

Surveys are ‘an inquiry which involves the collection of systematic data across a sample of cases and the statistical analysis of the results’ (Marsh 1982). Surveys were used during both semi-structured and structured interviews.

3.4.3.1 Semi-structured interviews

The semi structured interviews were used in collection of information about the case studies and about the sample population. The aims were to both explore and to understand the finance of petty commodity production. The semi-structured interviews were conducted at the beginning of the research period. Various themes were covered using a checklist rather than using set questions (Appendix 3).

Semi-structured interviews are based on the development of a guide or checklist of questions and probes (Lofland 1984, Berg 1989, Denzin 1970, Hoinville et al 1985). The initial questions, themes and probes were developed in the UK based on the literature review and the original pilot work (4.3.1). These were combined with extra questions to check the reliability of data.

3.4.3.2 Sampling

The sampling technique adopted was purposive (Morton-Williams 1985), which mainly reflected the demands of the community and the research assistants (3.6.3.). In gaining access to the community there was an understanding that the author would providing advice and help to the enterprises. Therefore the research assistants felt that all micro-enterprises should be visited. In fact given the number of enterprises this was impossible, however a fairly even distribution of micro-enterprise interviewed was achieved throughout the area (Illustration 3.1).

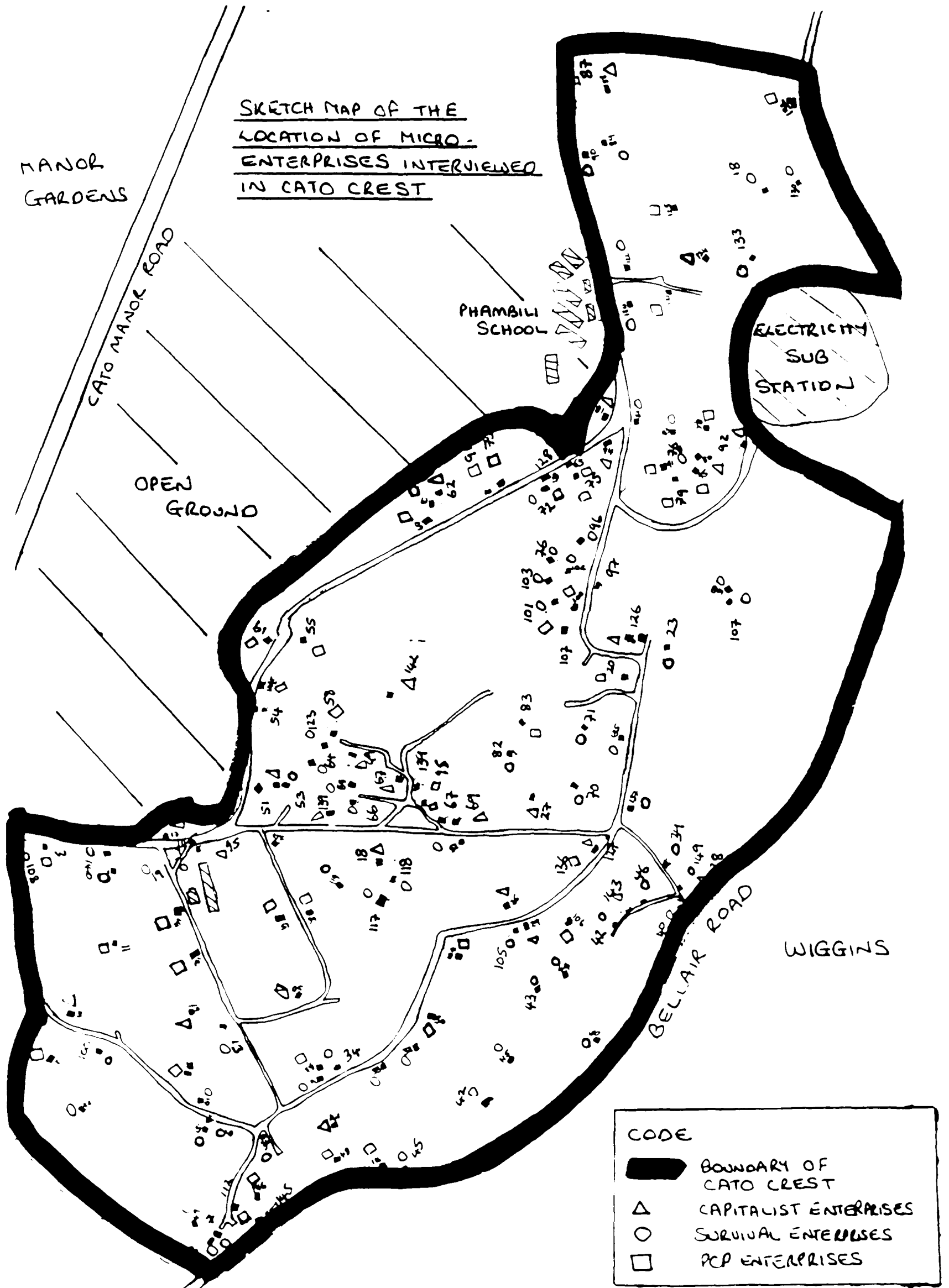
Selection was largely left to the research assistants, who would walk into different areas and either go to a house where they knew a micro-enterprise operated, or ask residents in the area to identify other micro-enterprises which we would then interview. In many cases people saw the researcher walking around and asked him to interview them. While this approach could not be said to be systematically random, in practice the approach was random in a rather haphazard manner. This was illustrated by an examination of the distribution of micro-enterprises interviewed throughout Cato Crest which indicates a fairly even spread of enterprises given the geographical area and the concentrations of populations within the area (Illustration 3.1). There was no evidence of bias in the sense of the assistant taking us to only certain micro-enterprises. While this could not be ascertained initially the fact of staying in the area for ten months meant that the researcher was able to identify if any case of bias had taken place.

3.4.3.3 Interviews

Interviewing is a skill that needs to be worked at. A number of books have been written about how to do it (Douglas 1985, Hoinville et al 1985, Taylor and Bogdan 1984) but it needs to be practised. Two main types of interview were used; introductory (general) interviews and follow up (more specific) interviews (Lava et al 1989). Each requires different skills. As Douglas (1985) writes:

‘Creative interviews involve the use of many strategies and tactics of interaction, based on understanding of friendly feelings and intimacy to optimise co-operation, mutual disclosure and a creative search for mutual understanding’ (1985:25).

Questions are channelled from the researcher through the assistant to the interviewee and the main challenge is to minimise bias (Hoinville et al 1985). Interviewing is very much a series of social relationships (Open University 1979) in which both sides have prior expectations (Francis 1992). In working in a poor community there is the danger of unreal expectations around provision of credit or work as a result of such contact (3.6.1.). These are likely to increase over time and there is a need for a strategy to be developed to avoid this.



The strategy adopted was to explain from the beginning that the researcher was not employed by any agency or company and that he had no money to give. In exchange for the interview the author was prepared to give business advice. This as a concept was little understood at the beginning and advice was perceived as being of little importance. However it would seem that as people received advice and actually saw its usefulness there was a greater appreciation of what was being offered. This also created greater legitimacy for the researcher. This was most clearly demonstrated when people began to hear that there was business advice being offered and would approach the author in the street to ask for advice or for him to visit their micro-enterprise to interview them. Such interviews while not part of the sample, but were seen as part of the research process.

3.4.3.4 Sensitive information

Issues dealing with finance, income and illegal activity are likely to be very sensitive. Christensen (1992) writes that in negotiating one's role, the establishment and maintenance of trust, the phrasing of questions and the cross checking of answers will help to resolve research in sensitive areas. 'The interviewee must manoeuvre around a subject's avoidance rituals in a manner that does not violate social norms nor cause the subject to lie' (Berg 1989).

However there is always some truth hidden. The writer's own experience suggests that there are layers of truth and untruth. This means that while the researcher may be confident in the accuracy of the information there is still no escaping the problem of identifying truth (Birkbeck 1980b). Harriss writes 'the field worker faces responses and actions such as dishonesty, piety, uncertainty, ignorance, dramatisation, curiosity and politeness as well as more fickle memories' (1992:142). Dean and Whyte (1978) suggest three checks on data (a) implausibility (b) unreliability of the informant and (c) cross checking of accounts.

One of the key areas to develop in all interviews, but particularly around sensitive areas is that of rapport (Prus 1991). This is influenced by such attributes as sex, race and gender but there is much that is in the control of the researcher. The researcher spent a lot of time building up relationships and trust with people. It is difficult to quantify this and describe how it worked in practice, but a number of strategies were found to be useful. In most cases the author bought something from the micro-enterprise or assisted them in some small way; for example, in some cases buying some fruit or bread to eat from the enterprise and in another case a panel beater that was interviewed was given a set of plastic glasses to protect his eyes when welding. Secondly, the author would fit into the timetable of the enterprise owner as much as possible. Thirdly, the very fact of expressing an interest in the enterprise and the enterprise owner proved a morale booster. For people who have been marginalised and discriminated by apartheid, to have someone, particularly from outside that community, who expressed an interest in their life and work was a significant ice breaker. Fourthly, the factor of time was of critical importance. Over time one became accepted in a community and therefore a member of it and not an outsider, or at least less of an outsider. Finally getting to know people and greeting them when seeing them around Cato Crest and chatting to them on such occasions again built relationships.

Dean and Whyte (1978) emphasise the highly situational nature of data. It is therefore important to pick the right time and place for the interview. For example many of the interviews with shebeen owners took place surrounded by an audience of people in various stages of drunkenness. This created problems in terms of whether people would discuss more sensitive information in such a situation and in practice a worse problem of drunken shebeen patrons joining in the

discussion resulting in long and generally incoherent conversations. It was difficult to initiate any changes in the interview venue since this would imply some thing secret was being discussed and therefore such interviews were either scrapped or of limited value.

It would seem therefore that in most cases there was less reluctance to disclose information than had originally been perceived. This was largely due to the strategies adopted by the author. However a more difficult problem was in identifying who in the household knew about the micro-enterprise (Christensen 1992). For example in a number of cases a man might be the owner of the micro-enterprise, but it was managed by his wife (see 6.3.1). This meant that he would know about the financial details of the micro-enterprise, but would be vague about the day to day running. It was therefore necessary where ever possible to talk with both partners in order to gain different views of the enterprise. Often this required the co-operation of other household members such as sons or cousins who were involved in the enterprise in different ways. There was no particular rule to this, and there was always a sense of not getting all the information when interviews had been exclusively with one person in the household.

3.4.3.5 Structured interviews

The structuring of interviews allows for better statistical use of the data (Fowler 1993, Oppenheim 1979), and has the potential to support the findings of semi-structured interviews, life histories and case studies.

Two structured questionnaires were used in the research (Appendix 2). The first was used to interview 138 micro-enterprise owners in March 1995 who had previously been interviewed using a semi-structured technique in mid 1994. A short two page questionnaire was drawn up by the researcher based on the previous ten month's field work in order to provide quantitative data to back up the qualitative findings. Each interview was relatively short, taking between fifteen and thirty minutes, although on a number of occasions it was combined with a semi-structured interview and was therefore longer. It should be pointed out that originally one hundred and forty enterprise owners were interviewed, but unfortunately two of the enterprise owners could not later be found. Given the transient nature of the population and the problems with locating shacks due to the variety of numbers that are attached to each shack it was decided to exclude these two enterprises. In other cases (ten) neighbours were able to provide information about micro-enterprise owners that had moved; and if the micro-enterprise was continuing it was classified as unchanged as it was impossible to assess the enterprise. However in two cases neighbours were unable to provide any information.

A survey and census was completed of Cato Crest in 1995 on behalf of the Cato Manor Development Association (CMDA) by Makhathini and Xaba (1995). This provides a population profile for the area as well as an analysis of employment within the population.

A second short survey was conducted with thirty micro-enterprise owners who were members of stokvels about how the stokvel operated (Appendix 2). They were identified from information collected in the survey of micro-enterprises. Using the sample of enterprises as the population, owners who were members of stokvels were randomly interviewed. In cases where the owner belonged to a stokvel that had already been included this interview was excluded. In three cases this occurred. Since very few stokvels had names such a judgment was based more on the membership size and its composition. If these were similar then they were excluded.

3.4.4 Types of micro-enterprise interviewed

The interviews were representative of the South African informal sector covering a variety of micro-enterprises although the majority were in the retail sector. However a decision was made to exclude the taxi sector from the field work since the seven taxi owners identified in Cato Crest all had very different financial requirements. For example, the average taxi owner would have assets of over R80,000 compared to retail enterprises of under R15,000. Therefore comparisons would have been very difficult and since studies of its relationships to finance have already been researched (Khosa 1994a) it was therefore decided to exclude the taxi sector.

3.4.5 Research assistants

When conducting research in a different country there is a need for a research assistant to bridge the cultural and language gaps. Typically in South Africa the research assistant and researcher tend to have very separate roles. The assistants work primarily in the 'field' interviewing people while the researcher plans, co-ordinates and analyses the work.. While possibly being acceptable in questionnaire type research this is impossible for more qualitative work where the combining of methodologies requires the engagement of the researcher full time in the field work.

For the majority of interviews two women were used as research assistants. They were members of Cato Crest Civic Association and were chosen by the Civic. Although they were employed on an hourly basis it was not an employee employer relationship. As representatives of the civic the researcher was accountable to them and this lead to a number of different and challenging research issues (see chapter 3.6.3.).

A research assistant needs to play a number of roles. Firstly he or she is the means of providing access into the enterprise. The assistant must come from the community and know the enterprise owners. Both women chosen were well known and respected in the community. This meant that people were rarely suspicious of the author and rarely questioned the motives for the research.. There was only one recorded incident in which people were hostile to the author as to why he was doing research in Cato Crest. Secondly, the person must be able to communicate with the micro-enterprise owners. This is not just a case of being able to speak Zulu, but also of being trusted and accepted by the people. In most interviews the initial discussions were in Zulu, but would then continue in a mixture of English and Zulu as the interviewee became more confident in communicating in English. This meant that in some cases when the assistant was unavailable that interviews could be initiated without the assistant. Although this was not ideal and perhaps some of the subtlety was lost the interview could still take place. Thirdly the research assistant needs to be interested in and enthusiastic about the subject. The assistant not only communicates the words, but also the meaning of what is being conveyed. Interpreting is a skill and rarely are sentences translated literally. The assistant needs to understand what is being said and then translate that to the interviewee in a way that he will understand. Finally the research assistant acts as an evaluator and assessor during interviews. Both women had a lot of insights on the people and the micro-enterprises.

In order that the initial 138 micro-enterprises were interviewed within the first two months the researcher's wife who has worked in the micro-enterprise field for some years assisted with interviews. Finally at the end of the ten months the survey of the 138 micro-enterprise owners who had initially been interviewed was carried out by a young man chosen by the Civic to help the researcher. Therefore three community members and the researcher's wife acted as research

assistants during the research period. These each were able to add insights and observations from their own perspectives, particularly those of gender and youth.

3.4.6 Participatory observation

There is a continuum between passive and active participation in which the researcher's role varies from a complete observer to that of a complete participant (Burgess 1982a).

During the fourteen month period of the actual field work the researcher and his wife (a research assistant) were able to spend ten months working in Cato Crest. During this period although not being resident the majority of time was spent in Cato Crest, with the researcher spending on average six hours in the community each day. Initially it had been planned to spend part of the period living in Cato Crest, however due to the violence in the area the Civic recommended remaining resident outside the area in a nearby suburb.

Although fourteen months might appear to be a long time to do the field work the actual time spent doing research was much less (Barley 1986). Harriss writes

'Total time in the country tended to be double that spent actually doing fieldwork. Obtaining local administrative and political permissions, secondary data and population listings, training a research partner, sorting out living, eating and transport arrangements, and waiting out various biological adjustments and illnesses occupy as much time as interviewing and are just as legitimate a part of the field experience' (1992:144).

The following techniques were adopted during the field work period.

1. Observations of the micro-enterprises and owners (Howe 1990). At its most basic this meant noting the appearance of enterprises and observing how they changed as one walked around; for example when an enterprise had no stock or when the table for selling goods was moved from one place to another.
2. Listening to conversations (eavesdropping) during the year (Berg 1989); for example a woman complaining that she could not buy beer from the local wholesaler in Cato Crest because he allegedly had no stock opened up a whole channel of discussion into how the brewery, wholesaler and shebeens operate and relate to each other.
3. Walking around the area buying regularly from sellers of goods and services (Bromley and Birkbeck 1984). The researcher commonly bought sweets, peanuts and drinks from shops that he had interviewed as he was passing. This allowed for a short discussion and for casual observation of the enterprise to note any changes. This could be done in an informal way so the person did not feel he was being interviewed as well as allowing for friendships and trust to be built up.
4. The giving of business advice, as has been mentioned, was not only a technique for gaining access, but it provided opportunities for deeper and more detailed insights into the micro-enterprises interviewed.
5. The most time consuming activity was the involvement of the researcher in general community activities. Community meetings, travel with community members, and dealing with community problems all involved time and energy. However these provided insights into the

perceptions of community members of the enterprise sector (see chapter 3.6.5.). They also confirmed the view that the researcher was committed to the community and therefore in some sense one of them. Since many of the enterprise owners were community leaders this again proved an opportunity to discuss with them and develop contacts.

Participatory research is not an exact science (OU 1979). It is not a technique that can easily be followed. By its nature it involves interaction with people and its outcome is therefore dependent upon how those relationships work out. There are many dangers in participatory research of bias (Burgess 1982a), but there are also great strengths in terms of deeper understanding. What is key is that the researcher needs to be clear on what he is doing and must record all that is being observed (Webb 1982).

'Participant observers have to be able not only to take and play the roles, but also to evaluate their relationship with their informants and the influence that their role has on the data they collect' (Burgess 1982a:46).

In terms of validity it is also very important to allow the findings of any research to be checked and evaluated by the people of that community (Yin 1988). This was done mainly by discussing the findings with the research assistants, but occupational biographies were also re-told to each person interviewed. This provided a further cross-check on accuracy and also provided an opportunity for additional information to be divulged.

However it was important for the researcher to view the study in the context of the development of a future programme in the area. The research has been the first stage in the development of a micro-enterprise programme for Cato Crest and was to some extent a piece of action research. It is important to realise the potential dangers of confusion due to the different aims in the research process, but in managing the research effectively these have been minimised. They also outweighed in the researcher's view by the advantages that such an approach has for the research and for the community in which the research takes place (Chapter 3.6.1).

3.4.7 Field notes

This is one of the central tools for the field worker (Taylor and Bogdan 1984). Burgess (1982b) suggests three types of field notes; substantive, methodological and analytical. In addition mental and jotted notes should be kept. What makes much of the work valid research is the care taken to avoid errors, to be thorough and exhaustive and to check and re-check all findings (McNeil 1990, Honigmann 1982). This is one of the most demanding parts of the field work and yet potentially the most fulfilling. Much has been written down about how to write notes (Burgess 1982b, Jones 1985, Lofland 1974, Webb 1982, Berg 1989), but the main rule is to write it down. If it is not written down it did not happen!

Interview notes were recorded in note form during all interviews. Although the literature suggests interviews should be taped (Douglas 1985) in practice this was not possible. To walk around taping conversations would have raised too many suspicions and would have needed so much explaining that it would probably have confused the research. Secondly due to the sensitivity of the material, taping would have created unease in the interviews which again would diminish their effectiveness.

At the end of the day notes of each interview was typed onto a computer. Interviews were numbered according to when the first interview was made. The second and third interviews were

each stored under separate names (interv2.doc, interv3.doc etc.). An original copy of each interview was printed and interviews for each case study were stapled together. Therefore it was possible for all the case study interviews to be carried around with the author during the field work. This was important since in many cases, while there was always an attempt to make an appointment in practice it was often found that people had gone elsewhere when the author arrived at the enterprise premises. It was therefore necessary to visit other micro-enterprises. These notes were the main field notes for the research. As much information about the micro-enterprise as was made available was recorded here.

In addition a separate set of notes was made of observations and thoughts. These tended to be rather intermittent and less structured and reflected issues around the field work. At certain times access to interviews would be very rapid and a six or seven hour day in the field would mean five or six interviews could be completed. This left little time after writing for more analytical work. At other times access was more difficult and this meant time could be spent thinking through the past interviews. In addition two periods in October and December of writing up the field notes in a more analytical manner provided time to prepare methodological and analytical notes.

These notes not only provide the basis for all analysis, but also the basis for verification (Burgess 1984). This is important in qualitative research where the need to show your field notes is potentially more critical (Douglas 1976). In accordance with standard research practice a summary of the occupational biographies is included in Appendix 1, but the full field notes, including all the semi-structured interviews, will be made available if necessary.

3.5 Analysis

A number of steps are taken in the analysis of the field research.

3.5.1 Field notes

The actual writing of field notes is in itself the first step in analysis. It allows for initial thought and reflection on the data collected. Each semi-structured interview was recorded from the interview notes, normally on the day of the interview, on a separate sheet of A4 paper and a code given to each micro-enterprise owner interviewed. In addition the occupational biographies were compiled from these interview notes (Appendix 1).

3.5.2 Analysis of initial semi-structured interviews

The original information collected during the interviews of 138 micro-enterprises in June and July 1994 was analysed. Enterprises were classified into three groups; capitalist, PCP and survival enterprises. Analysis focused on the variation between the groups in terms of type, start up capital, institutional capital, dependent labour, the role of the household, credit and savings and financial details. This was a rather static analysis and could not show any of the dynamics, but was able to show some of the differences between the different types of enterprise.

3.5.3 Survey results

The survey results enabled a comparison of the 138 micro-enterprises over a ten month period and identification of which micro-enterprises had experienced growth or decline. Mean and median figures for each category of enterprises that had either grown, declined or remained the same were analysed (Appendix 3).

3.5.4 Occupational biography and semi-structured interview indexing

Each occupational biography and semi-structured interview could be analysed into various segments to identify changes between capitalist, PCP or marginalised enterprises (Tagg 1985). Having broken the text down into these various segments the next task was to identify common themes or explanations for these changes.

3.5.5 Case studies and charts

Each case study was examined using balance sheets to illustrate how various aspects of finance had changed and whether these corresponded with any changes in the status of the enterprise. Institutional finance, credit, levels of assets and liabilities, turnover, fixed and variable assets could then be examined in relation to the status of the enterprises over a ten month period of time. If the findings were consistent in a number of cases it could be argued that a degree of replication has been achieved (Honigmann 1982). The case studies were also used to illustrate particular points made in the analysis.

3.5.6 The combining of literature and field work

The re-working of the literature on completion of the field work and an initial analysis provided an opportunity to link the field work and the reality it illustrates with theoretical concepts developed by other researchers. Such an exercise provided an opportunity to focus the research and also to ensure that the analysis was based primarily on the field work and not the literature.

3.6 Risks and assumptions of the methodology

3.6.1 Who benefits from the research?

This is a critical issue in doing research in a poor community. How will the community and those interviewed benefit from the research process? Too often it seems that this issue is either ignored completely or the researcher tends to imagine benefits which are in fact rather illusory. For example the claim that the research will add to knowledge which will in the end influence government policy to the benefit of that community is to all extents and purposes playing with words. Government policy and practices, it is hoped, will be influenced, but their impact at a community level is minimal and rather long term. The researcher was particularly challenged by this issue during the research process.

South Africa is a country in which injustice is a common theme. In 1992 the author initiated a pilot phase of the research in another poor community in Durban called Amoati. Through discussions with community groups and members in that area the whole issue was raised as to what would be the direct benefit for that community. This was argued from two points of view. Firstly, one is spending time with people which should in some way be compensated; and secondly and more seriously one is taking the experiences of those who have little in terms of personal wealth and through the action of research gaining money and status.

The author felt at that time it was fair to offer to give some advice to micro-enterprises and to help the community think through how micro-enterprise development could be considered as part of their development planning. On re-evaluating this pilot phase the author became aware that the reality was that really he was using this as an excuse to gain access and was not really committed to improving that community during this period. Part of the reason for the failure to make any impact was that the structure through which the research was carried out was not suited to the ongoing development within the community, but this tended to cloud the fact that the motives were not right. In fact justice was probably done since due to access problems the pilot phase was of little use in the research and so neither party gained.

However having learnt from the earlier experience there was a very real commitment on behalf of the researcher to look to improve the community during the research phase. Three strategies were adopted during the field work to seek to provide some sort of benefit.

1. By being a member of the community the author was able to act as a resource by providing advice and technical information on a number of issues. Cato Crest was, during the period of the research, going through a consultative process with the Cato Manor Development Association as to how the area could be developed. The author was able to offer his experience in these negotiations as an outsider who was not connected to the various other parties involved. This was also combined with having a vehicle and a telephone which was often used to help community members.
2. The author also worked with community members on developing an organisation that would be able to give ongoing advice to enterprises as well as link them with institutions in Durban that could offer other resources in the areas of finance and training. This has now been incorporated into plans for the area.
3. The third strategy was in the offering of business advice to individual micro-enterprises interviewed during the ten month period. This primarily revolved around the forty micro-enterprises who were case studies and occupational biographies. The advice varied from enterprise to enterprise, but mainly dealt with record keeping and how information could be used to better manage the enterprise. However it also included such diverse areas as whether to buy a mobile phone or not and what type, to where one could find shipping containers.

In the researcher's view the use of these strategies not only gave the community some concrete benefits in exchange for the research, but also helped to legitimise the researcher in the eyes of community members.

3.6.2 Access to field study area

The issue of access is critical where research requires a significant period of time in any one place. If little time is needed to be spent in a community then it is relatively easy to get such

access. The difficulty is that in more longer term research greater expectations and demands are raised by community members as to the benefit to that community of the research (Francis 1992).

In Amoati, where the pilot research occurred, access was through a local community group. This provided ideal contact into the community, a degree of legitimacy and access to an excellent research assistant. Unfortunately on returning to South Africa to start the main research phase the situation had changed. The area had by this time been affected by the political violence between the ANC and Inkatha to the extent that we were advised not to visit the area. This was further complicated by internal problems within the community organisations which meant that the previous strengths became weaknesses in gaining access into the community.

Therefore while hoping this would be resolved the author started to explore possible alternative areas where the research could be started. Through contacts with people living in Chesterville a meeting was arranged with community members from Cato Crest, a squatter community in central Durban. These proved very productive and although it took a further two months before access could be finalised the access problem was resolved.

The two months delay also provided an interesting insight. Part of this was due to the national election which delayed activities, but also in part was due to a desire for the community leaders to get to know the author and to ascertain what the benefit would be to them before committing themselves. It is probable that with a more aggressive stance the author could have started the research earlier, but the building up of relationships was invaluable, although frustrating and time consuming. To do any short term research there was little need to make such links, but it was critical if one was to remain in the area for any length of time.

Access however does not just mean gaining access to the community, but also access to individual enterprises. This is where the research assistant is critical (3.4.5.). The two research assistants proved to be valuable sources of information as well as providing the access to people.

3.6.3 Control versus participation in the research process

In doing research in South Africa there is a need to be prepared to partially lose control over the research process. The initial planning of how the research should be carried out had to be changed as the community, or more exactly the community leaders, became involved and started to become part of the process. At the lowest level the relationship between the researcher and the research assistant is not one of employer-employee; rather it is more clouded, being based on equality in which each party has a voice and choice in the research, time-keeping and direction. This was because the research assistants were not only employed part time by the researcher, but they were also community leaders and therefore had a mandate over whether the researcher should continue the research or not.

The result is that the researcher as much as the assistant needs to fit into the plans of the other. It was impossible to fix working hours and in some cases whole weeks had to be spent in other areas not directly related to the research (e.g. preparing for a funeral following the murder of a community leader).

At a deeper level the original idea had been to interview in depth three or four micro-enterprises. However the research assistants felt that if only a few enterprises were interviewed this would cause resentment and be misunderstood by community members. It was therefore decided that as

many enterprises as possible should be interviewed initially. From a practical field work point of view this was obviously better, but it meant that the research planning had to be adapted.

This required a degree of flexibility on the part of the researcher as well as the patience to carry through the research process. Probably the biggest strain is that the time commitment to that community expands as one reduces the control, but at the same time it introduces new ideas and views that might have been excluded if a more rigid approach had been adopted.

3.6.4 Bias in the research process due to the giving of advice

Earlier in the chapter the danger of bias due to advice being given to enterprises was referred to. Any actions by the researcher in the field have some impact and therefore bias is always part of the research process. Social research is not carried out in a laboratory; it is a complicated process in which the researcher becomes a player. In more quantitative data the impact of the researcher is more minimal, but as more qualitative data is required and more contact and time is spent in daily communication with the research subject the potential danger increases. It therefore becomes a slightly less exact science since the observed and the observer are mixing and interacting. The question is whether this bias is significant and whether it can be allowed for in the analysis.

However a number of points indicate bias was minimised.

1. The business advice given will tend to have a more long term rather than an immediate impact on the micro-enterprise and therefore its impact in the short term (ten months) was minimal.
2. While discussions around finance could affect people's attitudes to institutional finance there was no recorded instance in which institutional finance was applied for as a result of advice. Two people were able to get finance during the period for increasing their stock, but in both cases the researcher did not give any advice or help with their applications (see 6.2.2). In fact in interviewing one of the micro-enterprise owners after he had received a loan the researcher would have suggested he take out a much smaller loan, which he subsequently recognised and has tried to repay back much of the original loan as a lump sum.
3. Probably the main impact has been on new enterprises. It would appear that the walking around Cato Crest by the author has stimulated people to think about starting a new enterprise. However since attention focused on existing micro-enterprises at the start of the period the fact that more new micro-enterprises have started will not have had much effect on the research other than increasing the competition.

3.6.5 Community views on the micro-enterprise sector

Much of the time during the field work was involved in general community activities. Community meetings, travel with community members, dealing with community problems all involved time and energy. One of the most significant observations that emerged from this process was the low status of micro-enterprises and their development as perceived by the community. South Africa has just initiated the Reconstruction and Development Programme (RDP). Self-employment is a key official component and yet in spite of this and the researcher's involvement in the area there was little acceptance that the promotion of small and micro-enterprises was an integral part of the RDP. Sectors such as construction and manufacturing

were perceived as being the domain of larger formal enterprises or only accessible to poor communities through 'project' or 'aid' funds from donors for so called 'income generation activities'.

It would appear that the marginalisation of people is not only a matter that can be viewed in terms of the status of various types of employment, but also by how people view and understand the world they live in.

3.6.6 The problem of multiple techniques

One of the biggest risks is that in using multiple techniques the demands on the researcher become too big. The net result of this can be that each technique is insufficiently developed (Forbes 1979).

The demands are greatest in the effective use of occupational biographies and participatory observation. Enormous demands are placed on the researcher to be able to think, listen, ask the right questions, observe, analyse and evaluate everything that is in front of him for a ten month period. Given the additional stresses of living in a new environment, the lack of electricity, sanitation and so on, there is a big danger that the researcher will fail.

To deal with this the researcher sought to have regular breaks from the field. This enabled time to be made available for reflection and initial analysis during the field work stages. In addition contact with academics in the region has helped to add critical insights, although the quality of such insights has been less than had originally been hoped.

The mid year return to UK was also important in reflecting on the research process and the state of progress of the research, by allowing chance to review the research and start the process of analysis.

3.6.7 The danger of the 'lucky dip'

Finally there is what Bijlmer (1989) calls the danger of the 'lucky dip' in which 'the result is an off the peg research in which the findings from the case studies and surveys are generalised or interpreted so as to fit the paradigms chosen' (1989:141). This is the danger in any social science research but is particularly difficult in this type of research.

Issues of subordination and dependence are not clear cut and may be only part explanations. 'It is essential not to assume that the power of this interaction between the North and South is so great as to mould single handedly all aspects of social life in the South' (Smith 1986:61).

Reality is that along some kind of continuum there are varying degrees of complementation and exploitation (Simon 1981). What this research seeks to do is to understand how the sectors articulate with one another over space and time and to identify and disentangle the role of finance, as opposed to other explanations, in this process.

It is therefore necessary to ask how far micro-enterprises in Cato Crest are subordinate to the formal sector and then what that means in terms of that relationship. Issues are not matters that can necessarily be quantifiable. Because of the overlapping and ambiguous nature of petty commodity production it is likely that some data will be of a more qualitative rather than

quantitative nature. As Harriss writes 'We are left with impressionistic cartoons, not high resolution photographs' (1992). It is therefore vital that a thread of evidence can be seen linking the theory to the observations which can justify the conclusions (Yin 1988) and that competing explanations can be defined and their relative effect clarified.

How field work relates to theory is a central question (Lockwood 1992). The field worker, his past experience and present experience to fieldwork are all part of the field study and as a result influence it. Data collection is therefore not neutral or impersonal but rather is the outcome of a set of dialogues. It is therefore important to recognise that all data is to some extent qualitative and that limits to knowledge need to be written into reports.

'Hypotheses are refined and the story is established at the end, but not at the beginning so that the data to test them with are often incomplete.' Harriss (1992:148).

3.6.8 The subjectivity of the classifications used

A central component of the methodology has been to develop a number of characteristics to distinguish between three classifications of micro-enterprises. The use of such characteristics opens the researcher up to the accusation that they are still very subjective terms and therefore their wider applicability is questionable. In order to test this the researcher's wife who as a research assistant had initially interviewed eighty five micro-enterprises and therefore was familiar with the enterprises, was asked using the characteristics as guides to classify those enterprises. An eighty five percent success rate in relation to the researchers classification was achieved. The error is likely to be reduced in practice because in examining why different classifications were used in a lot of cases it was due to additional information collected in subsequent interviews. However it is likely that particularly between survival and PCP enterprises there was some blurring between the two classifications since the characteristics of marginalisation are not clear cut.

While there will always be a degree of subjectivity given the nature of the terms it would appear that this is fairly minimal. This is particularly the case when the purpose of the research is to examine change during which the blurring of characteristics becomes less since enterprises will as they change move more clearly into one or other of the classifications.

Therefore it would appear that the use of such characteristics to classify micro-enterprises is valid, although the use of such characteristics needs to be recognised as being country and often region specific.

3.6.9 Occupational biographies and longitudinal studies

Two approaches have been used to enable the study to compare changes in micro-enterprises over time. The first involves an analysis of micro-enterprises over a ten month period and the second the occupational biographies of a smaller number of enterprise owners.

One of the criticisms of much micro-enterprise research which is beginning to be dealt with by researchers (King and Abuodha 1991) is that it often involves a very static picture. It is therefore impossible to identify the dynamic and changing nature of micro-enterprises.

By combining these two approaches this research has sought to ensure that such changes are identified. Originally it was planned that the semi-structured interviews would cover a twenty month period, but due to the violence in the original research area this had to be reduced to ten months (Chapter 4.3). However despite this more limited time frame the research aims were achieved.

4. Review of field work

'The scream filled the night. It pitched over and over again, linking one to an unbearable cruelty, only to subside minutes later and then rise again. Most painful was its solitariness. "Aye baba, aye baba"- and yet "baba" was silent. So was everyone else that night. It was Sunday and most people in Cato Crest were deep in drink or drug induced slumbers. And those who weren't were too exhausted by their own problems to wake up. "If you listen to all the screams in this place, you will go mad," Thandi Ndlovu told me one day as I sat rigid listening to a child being beaten next door.'

(Donna Hornby writing in the Natal Witness on 'The violence and beauty that makes up Cato Crest' Friday, April 7 1995, 11)

4.1 Cato Crest: the field study area

Cato Crest is an informal settlement³³ situated approximately three miles from the Durban central business district at the eastern end of Cato Manor (Illustration 4.1), between central Durban and Pinetown (Illustration 4.2). Cato Manor is a wide open area that had up until the 1960s been home to a mixed ethnic population of 120,000 (Davies 1991) living in a large shanty town known as Umkumbaan. Following the Group Areas Acts the area was cleared and the residents relocated either to nearby townships or to the informal settlements of northern Durban (Maasdorp and Humphries 1975, Manson 1980).

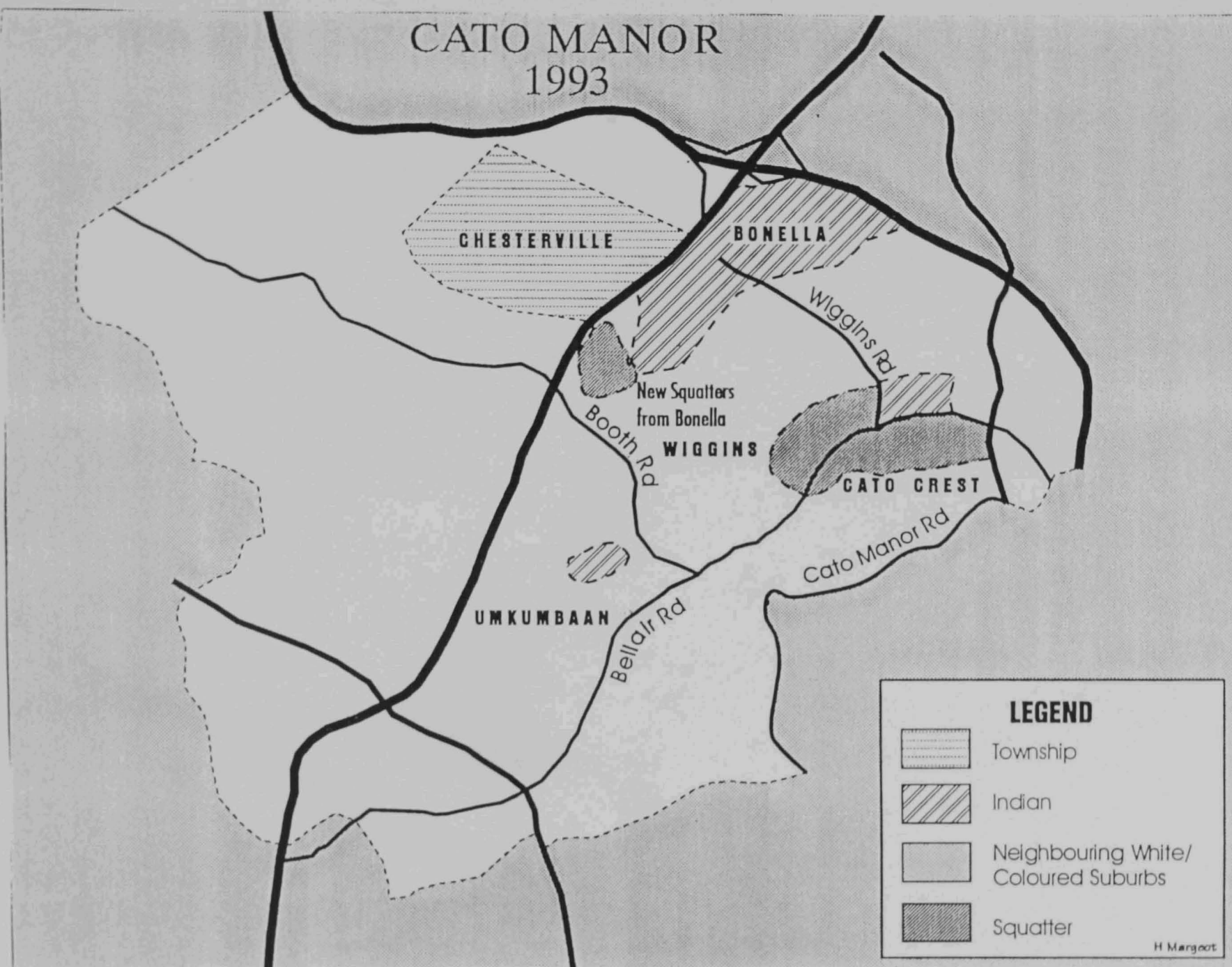
Since the late 1980s the area, which has remained vacant since the removals, began to experience an influx of people from rural and adjacent urban areas. Makhathini and Xaba (1995) have identified three stages to this land invasion:

'The area of Cato Crest across Bellair Road immediately to the right after crossing the footbridge was the first to be settled in early 1987. The next community seems to have come to being in the early 1990s and mostly settled to the left and on the hill top. The more recent arrivals in the middle of 1993 mostly settled along the road to the Phambili school and stretched down to Bellair Road around the electricity sub station. There have always been individual families and smaller groups arriving and identifying already settled sections of the area without them becoming community entities on their own but rather getting absorbed into the already settled parts without getting allocated numbers through independent negotiations' (Makhathini and Xaba 1995:7).

Cato Crest is therefore a relatively recent settlement comprising a fairly diverse group of Zulu speaking people (Hindson and Byerley 1993). It is important to understand the processes at work in Cato Crest and the socio-economic profile of the area in order to validate any generalisation of the results from Cato Crest for both other South African informal settlements and for wider applicability. In order to validate the results it is necessary to compare the socio-economic profile of Cato Crest with that of other informal settlements in the Durban area. Inanda, a grouping of informal settlements in Northern Durban with a population of

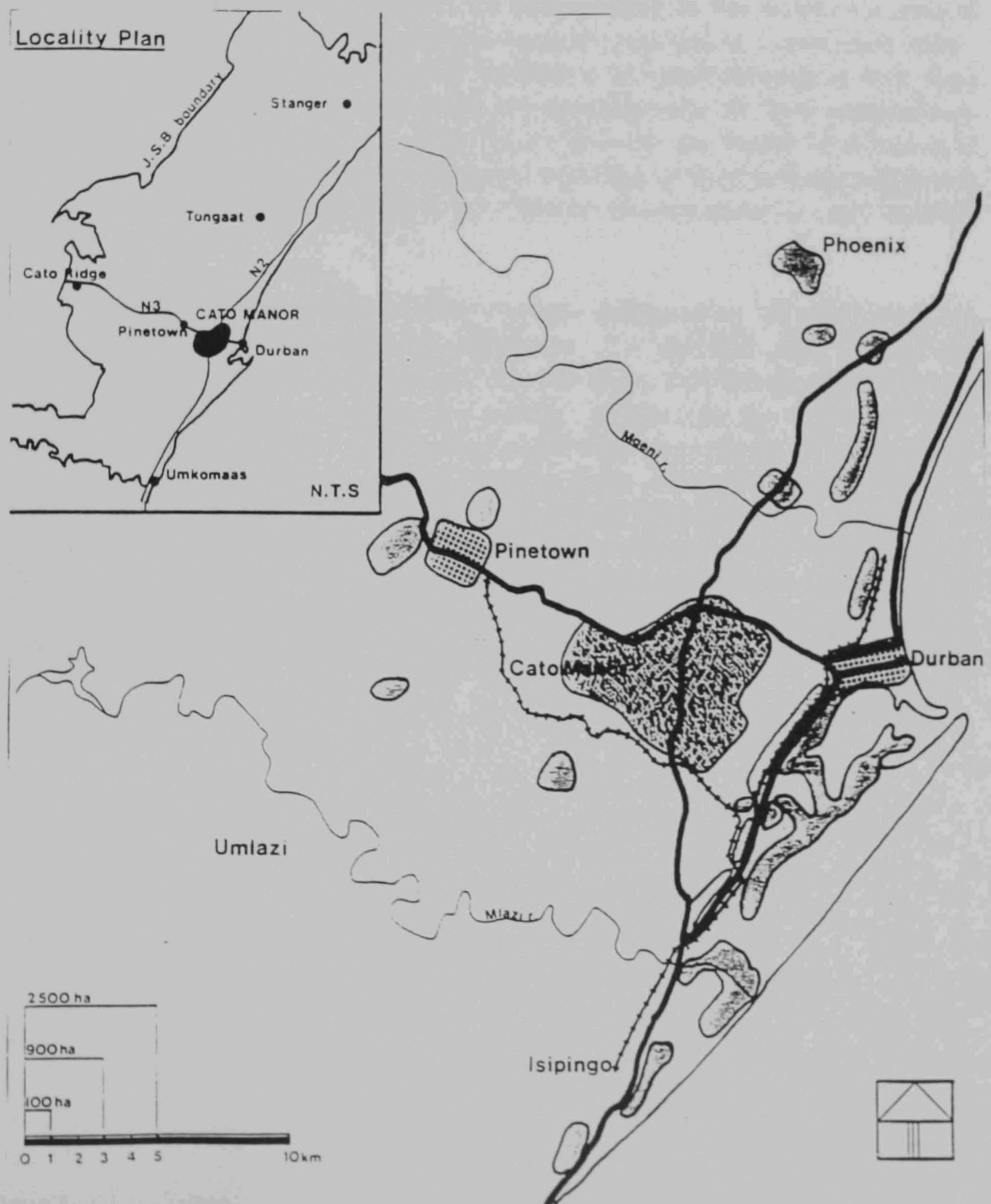
³³ The term informal settlement is the term given to all settlements in South Africa that are not townships and have to varying degrees avoided planning legislation.

Illustration 4.1 Map of Cato Manor area



Source: CMDA (1995) Development plans for Wiggins area, unpublished paper, Durban.

Illustration 4.2 Map of the Durban Functional Region



approximately 500,000, was chosen as an alternative area since a socio-economic profile had been carried out of some of that area (Cross et al 1992) and as the researcher had spent two months in Inanda doing preliminary research, he was familiar with both areas.

4.2 Survey of Cato Crest

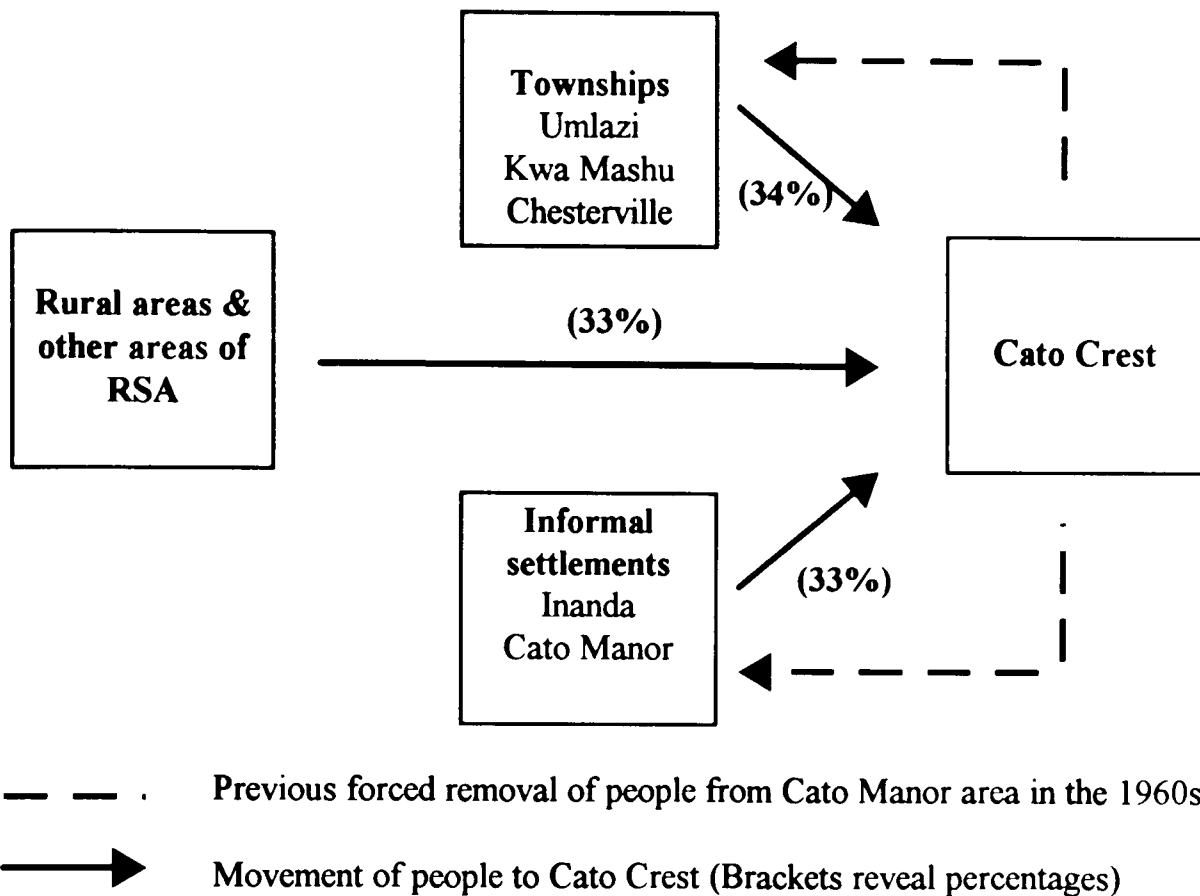
During the research period a survey was made on behalf of the Cato Manor Development Association (CMDA)³⁴ (Makhathini and Xaba 1995) and this provided background data on the population of Cato Crest. The resulting population register identified 3,467 households in Cato Crest with a population of approximately 16,000. The survey identified that based on a mean of 4.8 members per household, two people per household could be classified as economically active. This is a similar finding to research in the informal settlements of Inanda although in both cases the average household size is slightly less than the average household size for black households in the Durban functional region (DFR) which is closer to seven people per household (Cross et al 1992). The literature views this as a common trend since with the growth of informal settlements since the late 1980s relatively large households have become decompressed in such localities (Cross et al 1992).

Probably the relatively new status of Cato Crest is the main distinguishing characteristic when compared to the more established surrounding settlements. For example, only 40% of the households in Cato Crest have lived in the area for over two years, with the average household having lived there for only eighteen to twenty-four months. However in the context of South Africa (Wilson and Ramphela 1989) and the rapid world-wide phenomenon of urbanisation (Bromley and Gerry 1979) Cato Crest actually typifies much of modern urban life in a developing country city³⁵. In particular, although the informal settlements and townships of Durban are historically much older, many of their residents are also only recent inhabitants of the area. The difference between Cato Crest and other settlements in Durban is further diminished by the evidence that residents have come from the following three areas in roughly equal proportions: Durban townships, informal settlements in Durban and rural areas in KwaZulu Natal (Figure 4.1).

³⁴ CMDA was the agency that was empowered by the various local and central government departments to investigate the development potential of Cato Manor.

³⁵ For example it was estimated that between 300,000 and 600,000 people have moved into shack settlements from the Eastern Cape to Cape Town between 1983-1988.

Figure 4.1 Movement patterns out of and into Cato Crest 1960-95



(Note: The two population groups are not necessarily the same people groups.)

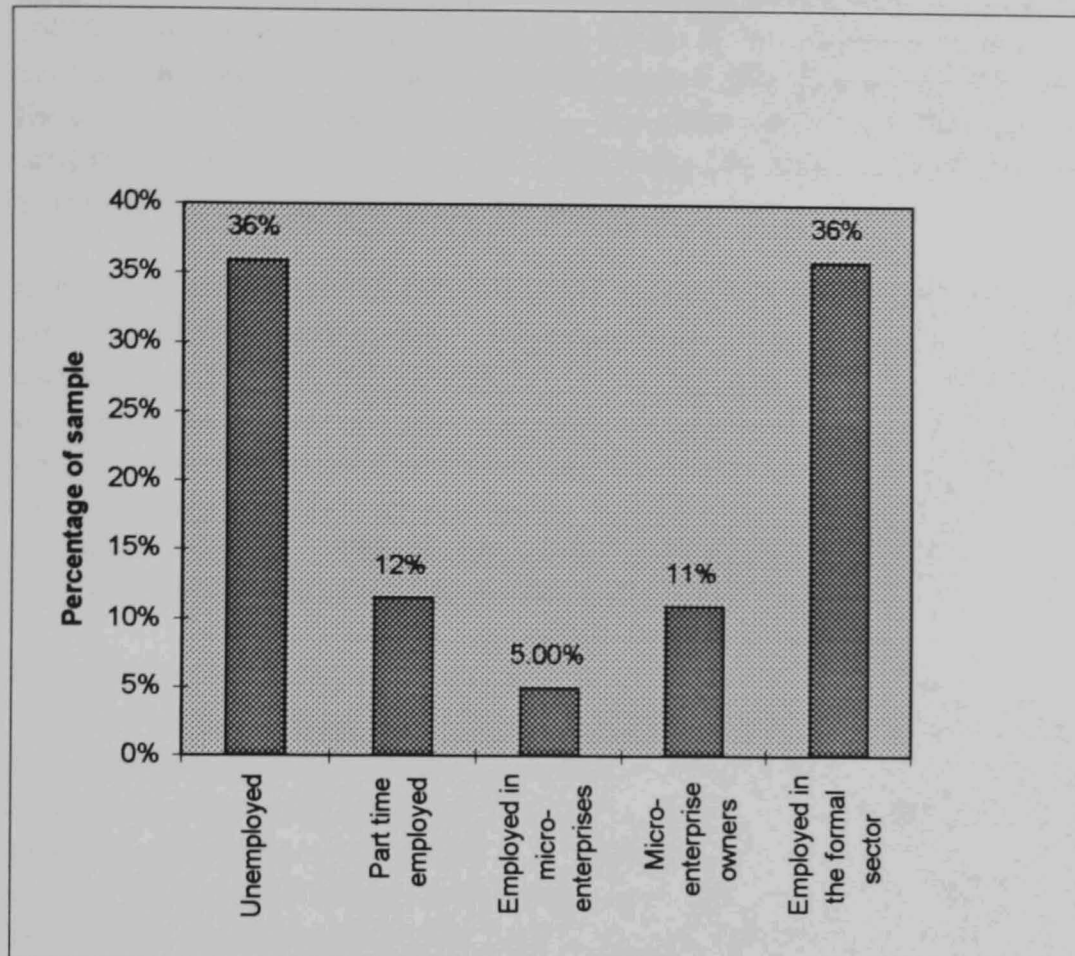
The similarity with other informal settlements is also reflected in the figures for unemployment, formal employment and informal employment. The survey data enabled the following analysis of employment types (Figure 4.2).

The unemployment figure of 36% of the economically active population³⁶ is slightly higher than both the national³⁷ and regional figures (CSS 1995), but is lower than the Inanda figure which is on average 47% (Cross et al 1992). Formal employment in both proportions and classification is fairly similar to the data from Inanda (Table 4.1).

The main differences are that domestic work is a more significant form of employment in Cato Crest than Inanda and artisan employment is minimal. Since Cato Crest is closer to the 'white' suburbs where there are more opportunities for domestic work, this is not surprising. The lower figure for artisan employment may well reflect the more marginal nature of the labour pool in Cato Crest which comprises a mainly unskilled or low skilled population who have moved to the area to search for work. In other words those with skills would have artisan jobs already and therefore would not need to move to Cato Crest in search of work, while those without such jobs are more likely to be unskilled.

³⁶ The economically active population includes all those in formal and informal employment, part time and full time employment and both job seekers and non-seekers who are unemployed in the sense of not being active in any of the other categories of employment listed in Figure 4.2.

³⁷ The national official unemployment rate is 32.6 percent or 4.7 million people, although the figure amongst blacks is 41.1 percent or 4 million people (Natal Mercury 1995b)

Figure 4.2 Vocational status of economically active population of Cato Crest

Source: Adapted from Makhathini and Xaba (1995)

Table 4.1 A comparison of formal employment patterns in Inanda³⁸ and Cato Crest

	Inanda	Cato Crest
Labourers and factory work	46%	39%
Domestic work	13%	22%
Artisans	11%	2%
Driver, security, shop assistants, and hotel workers	22%	21%
Professional and clerical	6%	5%
Other	2%	10%

Approximately 11% of the economically active population owned micro-enterprises which corresponds to the Inanda figure of 8.5%. Although research (May and Stavrou 1990) has identified a range of figures this would appear to be within the range of such research findings on informal activity in urban informal settlements. In terms of numbers there are therefore approximately 760 micro-enterprises operated from Cato Crest of which 18% were studied in this research.

³⁸ The Inanda data is from Cross et al 1992.

The mean household income in Cato Crest was R655 per month which is low compared to the Inanda figure of R870 per month and is also below the household subsistence level (HSL) which includes the minimum requirements for an average five member household (Wilson and Ramphela 1989). However a degree of caution needs to be exercised with regard to income figures, particularly when it is recognised that the survey data was collected in order to identify eligibility for an income based housing subsidy. Therefore while both field observation and survey data indicate that income levels were low and around subsistence levels the actual level of household income is likely to remain somewhat imprecise.

In terms of appearance Cato Crest would appear to typify the conditions prevalent in other South African informal settlements. Accommodation is predominantly wattle and daub (59%), or cardboard and wood with an average of two rooms per shack. This is similar to other informal settlements in the Durban area, although the degree of permanence as reflected by cement block construction, cement plastered walls and the number of rooms typically increases with the age of the settlement. There is no electricity in Cato Crest and limited health, telecommunication and education facilities. This is despite its central location and the fact that a private hospital, telephone exchange and electrical sub-station are all located nearby.

Violence has played a significant role in causing people to move to Cato Crest with 49% of the 1995 survey identifying this as the main reason for leaving their previous residence. Cato Crest has therefore provided an attractive option for migrating households and individuals since it offers both relative security, low cost accommodation and vicinity to employment opportunities in Durban. However, while security is relatively good compared to many areas, violence is not absent, for example during the research period ten people were murdered in Cato Crest which is higher than the national average³⁹ and a series of robberies and rapes by neighbouring gangs had started in early 1995. While the precise role violence plays in micro-enterprise development is unknown, it is a further destabilising factor.

Cato Crest consists of a relatively mobile population living in temporary accommodation and is characterised by high levels of unemployment, employment which is predominantly low paid and unskilled and micro-enterprise employment. It can therefore be concluded that the socio-economic status of Cato Crest would appear to have characteristics in common with other informal settlements, such as the Inanda settlements, despite the fact that it is a more recent settlement.

4.3 Field work experience, observations and an overview

The field research was undertaken in two parts; firstly a two month period spent mainly living in Amoati, an informal settlement in Inanda, and secondly fourteen months in Cato Crest (see Figure 4.3).

³⁹ The national average is 54 murders per 100,000 while in 1994/95 the Cato Crest figure is 62 per 100,000.

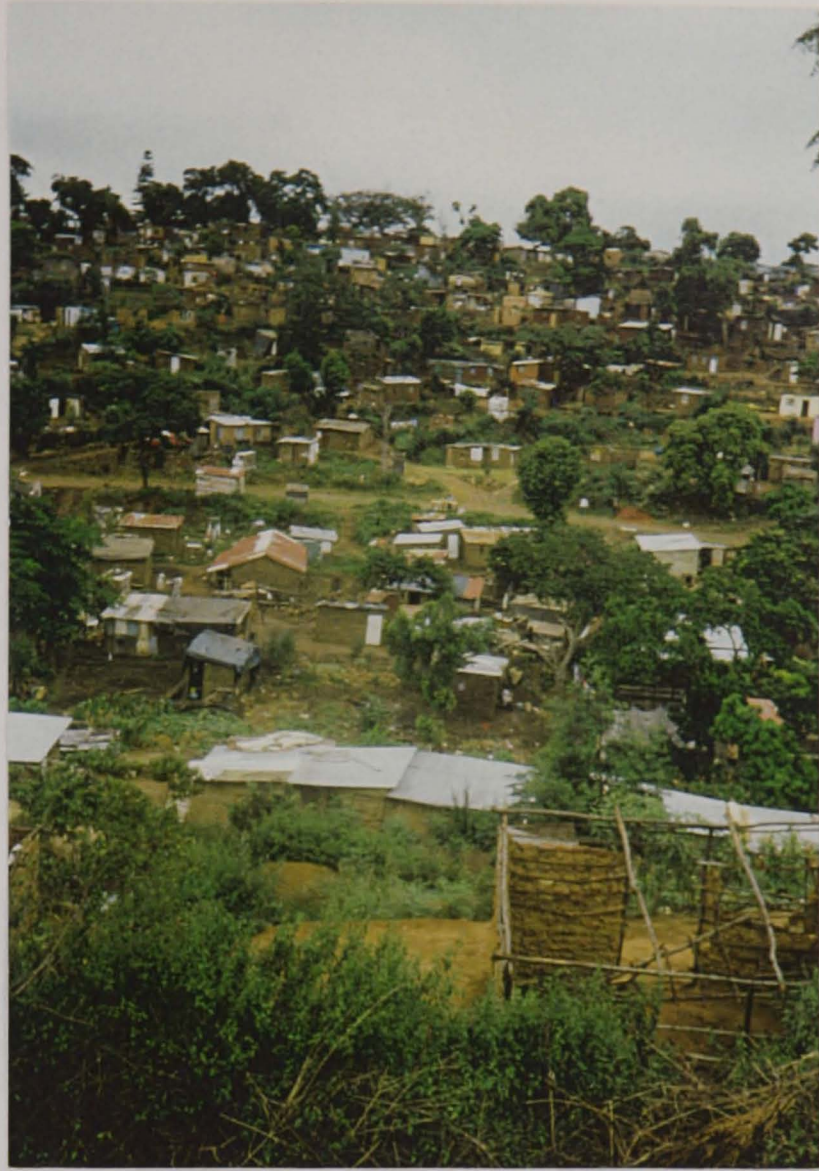


Illustration 4.3. Pictures of typical housing in Cato Crest



4.3.1 Amoati: preliminary research

The original research plan had been to undertake field research in Amoati for two months and then to revisit the same enterprises and carry out more extensive field research over a year, starting a full eighteen months after the preliminary research had been completed. This would have enabled the compilation of occupational biographies and a longitudinal study of the micro-enterprises over a lengthy period of nearly three years.

The research had originally been aimed at exploring how instability and violence affected micro-enterprise decisions on finance. However in evaluating the initial field work and developing the literature search the research question was adjusted and a petty commodity production framework was adopted. The preliminary field work was critical in this process of development of a research question since it enabled an examination of the literature in relation to a real life situation in order to see which approach best fitted the situation in South Africa. From this it became clear that in South Africa the position of micro-enterprises and financial options available to them could not be separated from the wider economy and that a PCP framework provided the best tool for such an analysis.

However, having undertaken the preliminary research in Amoati, in which 24 enterprise owners were interviewed, the researcher found a very changed situation on his return to Durban in February 1994. In the intervening period the neighbouring community to Amoati, Bhambayi, was the scene of widespread violence in which it is estimated that over 500 people were murdered during 1994⁴⁰. In addition it appeared at the time that as the Inkatha Freedom Party (IFP) had excluded itself from the May general elections Natal would be plunged into further violence and bloodshed⁴¹. NGO staff working in Amoati and community members advised the researcher to postpone starting the second stage of the research until the situation had calmed down.

4.3.2 Cato Crest

The researcher was faced with a situation in which potentially he would not gain access to the research field due to violence; therefore two strategies were initiated (Figure 4.3). During the preliminary research the role of hire purchase in micro-enterprise finance had been identified. Twelve electrical appliance retailers were interviewed from the Durban CBD during March and April 1994. This brief study of the retail market for refrigerators (Chapter 10) sought to identify and understand the mechanism of hire purchase provision to micro-enterprises in informal settlements and the scale of such activity.

At the same time the researcher began to explore the possibility of conducting research in alternative informal settlements in the Durban area in order to provide an alternative if violence continued to prevent access to Amoati. During this period through a meeting in Chesterville township⁴² the researcher was encouraged to explore possibilities of doing research in Cato Crest.

⁴⁰ Based on discussions with community members in Amoati and various newspaper reports.

⁴¹ The fighting between IFP and ANC supporters, particularly in Kwa Zulu Natal has since 1989 been escalating (Independent on Sunday 1992) and there were fears that the elections would lead to a further increase in such violence.

⁴² At an Easter day service in the township Alice Ngcemu who was involved in a Methodist church in Cato Crest encouraged the researcher to explore possibilities of working there.

Geographically this was an ideal choice in that it was near the researcher's accommodation and therefore meant that regular visits could be made to the area even if living in Cato Crest proved impractical. However although initial contact was made in March 1994 with community leaders in Cato Crest it was not until June 1994 that access to the field site was possible. This was partly due to the national elections, but also reflected the difficulties of negotiating access to Cato Crest to carry out the field research. Therefore while this time was rather frustrating and at the time appeared to be unproductive it did enable the groundwork in terms of relationships with community leaders to be developed, which in the long term enabled a high level of access to be maintained throughout the remaining ten months.

Having gained access to the research area, two months were spent undertaking semi-structured interviews with a sample of 138 micro-enterprises. Micro-enterprises were selected only if they operated from within Cato Crest and therefore hawkers and traders working in town or other settlements were excluded. This was partly due to problems in identifying such enterprises, but primarily due to the methodological problems of visiting them regularly when they were located outside of Cato Crest. In addition taxi operators were excluded since recent previous research work had dealt with this sector (Khosa 1994a) and their capital structure was considerably different, such that it was felt their inclusion would have distorted the findings of the research.

Table 4.2 Distribution of categories of micro-enterprises surveyed in Cato Crest

Category	Number	%
Retail (other)	66	49
Retail (shebeens)	34	24
Producer	17	12
Service	6	4
Retail and producer	7	5
Retail and service	8	6
Total	138	100

While the majority (73%) of micro-enterprises were fully involved in the retail sector (Table 4.2) a wide variety of enterprises were interviewed (Table 4.3) throughout all areas of Cato Crest (Illustration 3.1).

In the period July 1994 to March 1995 forty five enterprise owners were interviewed using a semi-structured approach and occupational biographies were compiled with ten enterprise owners. Data collection involved interviews using a checklist developed during the preliminary field work, development of balance sheets of the micro-enterprises where appropriate and observation of the business and its customers. Interviews ranged from twenty minutes to four or five hours and were conducted with the help of a number of research assistants.

Table 4.3 List of types of micro-enterprise interviewed

Type of enterprise	Number	Type of enterprise	Number
Spaza	38	Phone	2
Shebeen	25	Shoe repair	2
Vegetable sellers	15	Block makers	2
Other sellers	12	Electrical appliance repair	2
Dress makers	8	Beer making	2
Vegetable seller/ shebeen	4	Seller/ water kiosks	2
Shebeen / spaza	4	Crèche / water kiosk	1
Hairdressers)	3	Panel beaters	1
Dressmaker/ other seller	2	Shebeen/ restaurant	1
Hairdresser/ Vegetable seller	2	Restaurant	1
Carpenters	2	Shebeen / crèche	1
Food producers	2	Spaza/ Sangoma	1
Builder	2	Meat seller	1
Sub-total	119	Total	138

In March and April 1995 two surveys were conducted: one on micro-enterprises in Cato Crest and another on stokvels in Cato Crest. These used a questionnaire format and each lasted twenty to thirty minutes. The questions were asked by the research assistant, although in all cases the researcher accompanied the assistant both to assist in completing the questionnaire and to take the opportunity to ask additional questions and make further observations.

4.4 Conclusion

Cato Crest needs to be viewed within the context of rapid urbanisation and the internal displacement of people groups. It therefore provides a wider applicability to situations where due to a variety of factors people invade or squat on urban land and set up a variety of micro-enterprises as part of an employment strategy.

However although it is still a relatively recent settlement, Cato Crest would appear to have similar socio-economic conditions to other informal settlements in the Durban area. It is therefore possible to extend the findings of this research to micro-enterprises located in similar settlements in the Durban Functional Region (DFR) and those in other urban settlements throughout the world characterised by similar conditions.

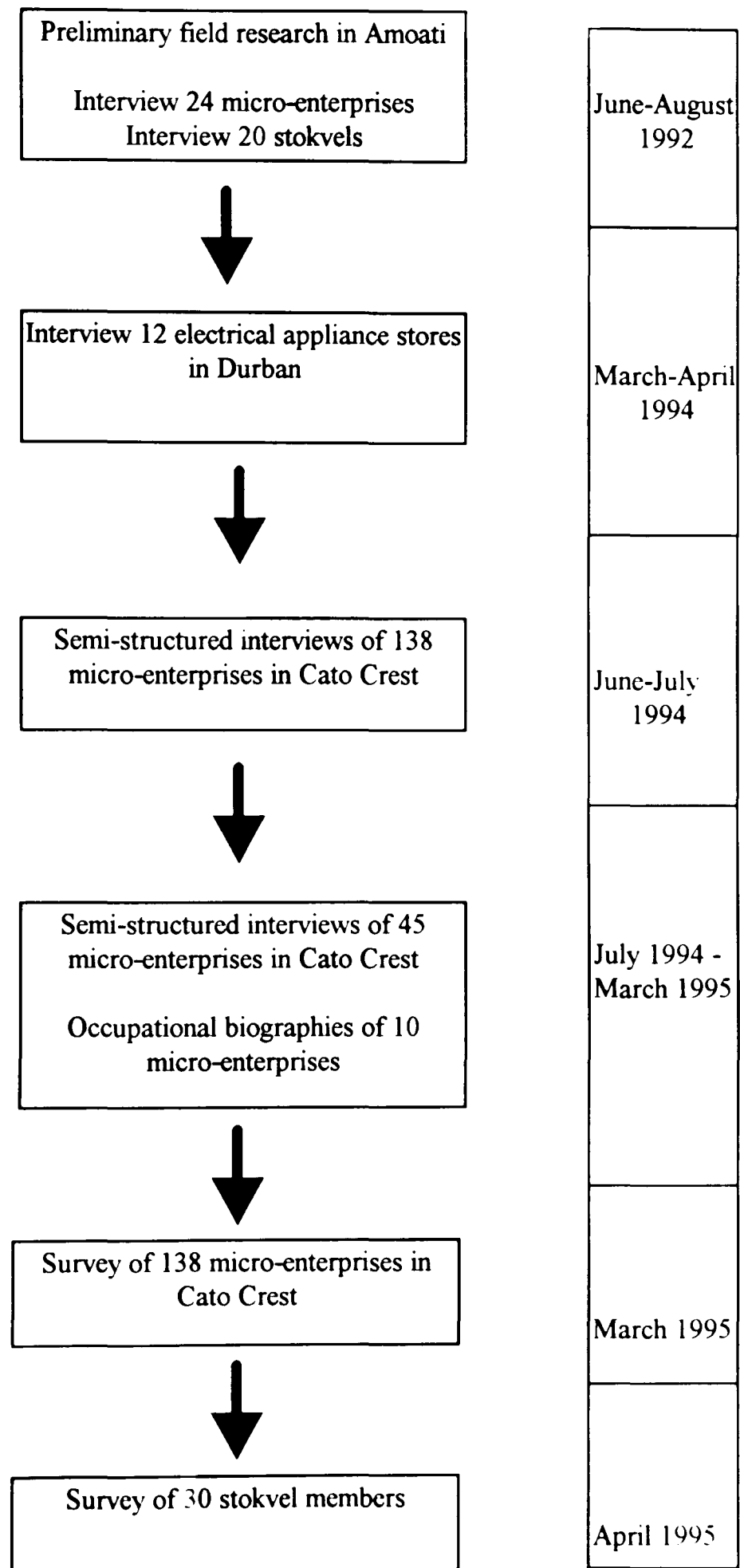
Finally this chapter has reviewed the key stages of the field work. Two lessons have been learnt during this work. Firstly literature reviewed in isolation from the field work is of limited value; it is important to view literature and the development of theoretical approaches within a certain context. A failure to do this creates the danger of what Bijlmer (1989) calls the 'lucky dip'.

Secondly, field work requires a degree of flexibility. In particular it was necessary to adjust considerably the original field work plan that had been developed from the preliminary field work and literature review, in order to accommodate the new field work conditions brought about by the changing situations in South Africa. This requires a degree of pragmatic thinking on behalf of the researcher and a willingness to accept the loss of some data in order to complete the research

task. There appears to be no easy techniques or helpful books to provide answers for how to do this. The experience of the researcher in South Africa would seem to indicate that the combination of using review papers⁴³ to maintain a clear understanding of the research questions and the ability to pragmatically analyse and make decisions about how the field work can be subsequently planned were critical in completing the research.

⁴³ The two review papers are part of the Cranfield review process for PhD research students and allow the researcher to review, with the assistance of a panel, the progress to date. Typically these are undertaken in the first and second year of the research work.

Figure 4.3 Schedule of field work



5. Conservation, dissolution and the role of finance

'The hawker of today is the spaza owner of tomorrow and the formal sector trader of next week.'

(View of micro-enterprises from Finance Week 1990, 45(4):24.)

'The business goes up and down.'

(Common comment from micro-enterprise owners in Cato Crest)

5.1 Introduction

This chapter describes the processes of conservation and dissolution at work in Cato Crest. Having defined the processes it identifies five areas where growth or decline has occurred, whose cumulative affect determines the process of conservation and dissolution. It then seeks to identify a number of areas in which finance plays a role in that process. Five of these factors are developed further in Chapters 6 to 10. The analysis involves the triangulation of occupational biographies, semi-structured interviews and survey work (see Chapter 3). A broad outline of the process is provided by the survey analysis (Appendices 2 and 3), while the semi-structured interviews (Appendix 2) and occupational biographies (Appendix 1) develop a deeper understanding of how the process works.

5.2 The processes of conservation and dissolution at work in Cato Crest

Three methods were used during the field research to observe and understand these processes. Firstly, 138 enterprise owners were interviewed in June 1994 and again in March 1995. Secondly, approximately 56 of these enterprises were interviewed a number of times during the ten month period using a semi-structured interview approach. Lastly, twelve of these enterprises were interviewed in depth and the resulting occupational biographies provide insight into processes at work over a much longer period.

The classification of enterprises into capitalist enterprises, PCP enterprises and survival enterprises is not exact. In Chapter 3 a number of indicators were identified that facilitate such classification (see 3.3.1 and 3.3.2). These provide the basis for the distinction between the three groups but it is important to stress again that there is significant overlap between indicators and their use requires a degree of judgement on the part of the field worker. However, while this limits the validity of comparing data with other research, the consistent application of the indicators and the combining of different methodologies by the researcher during the field research ensures the consistency of the classification. It is therefore possible to state with a degree of caution that any change in classification is a real change in the nature of such enterprises.

5.2.1 Changes observed between June 1994 and March 1995

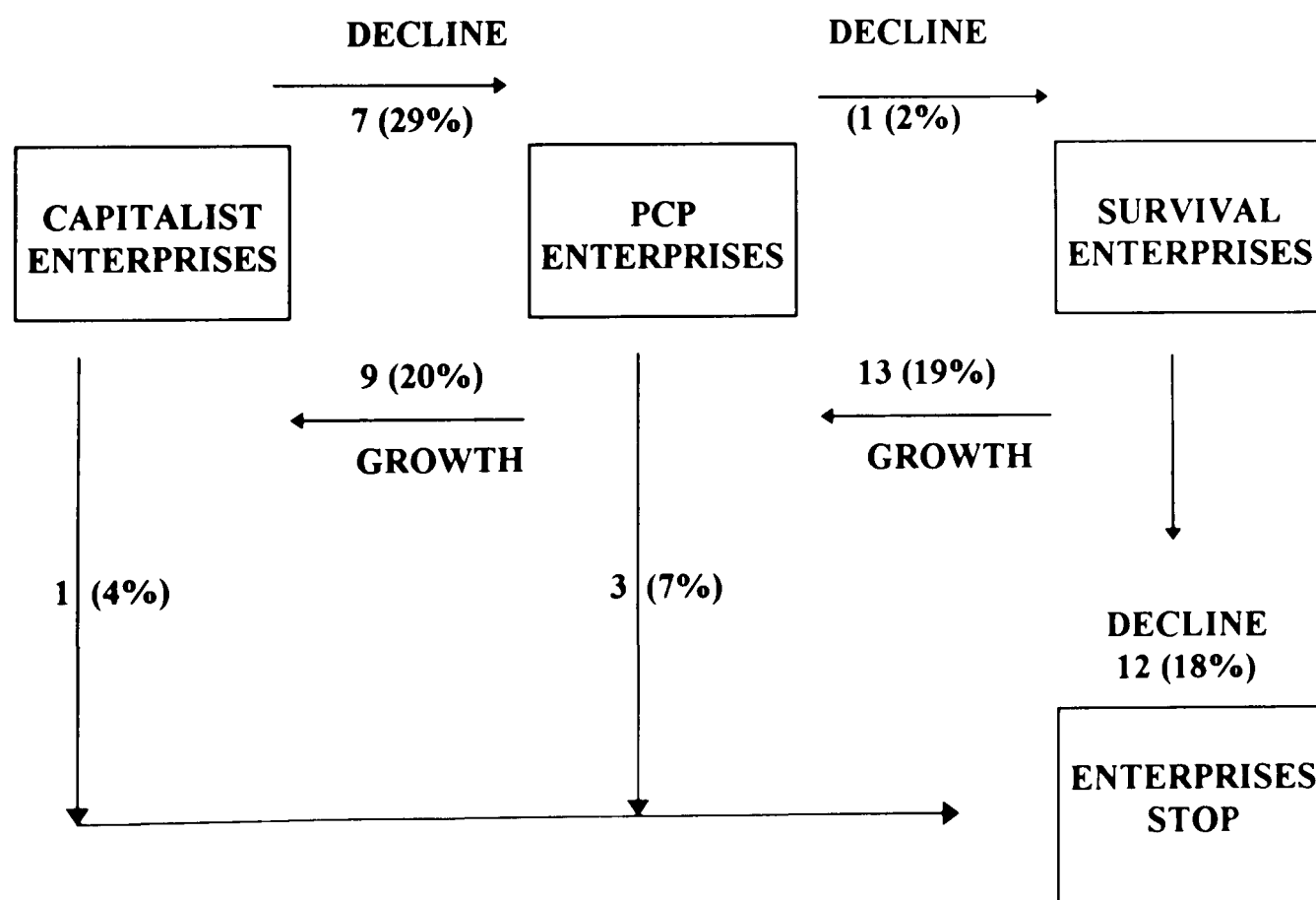
The process of conservation is represented by the maintenance or growth in the aggregate number of PCP enterprises while the process of dissolution involves the increase in aggregate numbers capitalist or survival enterprises; this is discussed more fully in Chapter 2.

During the period of field research significant changes were observed in the classification of the enterprises initially interviewed in June 1994 (Table 5.1 and Figure 5.1).

Table 5.1 Classification of enterprises at the beginning and end of the research period

	Capitalist enterprise	PCP enterprise	Survival enterprise	Enterprise stops	Total
Beginning of research	24 (17.4%)	46 (33.3%)	68 (49.3%)	0	138
End of research	26 (18.8%)	52 (37.7%)	44 (31.9%)	16 (11.6%)	138

Figure 5.1 Main changes in enterprise classification during the research period

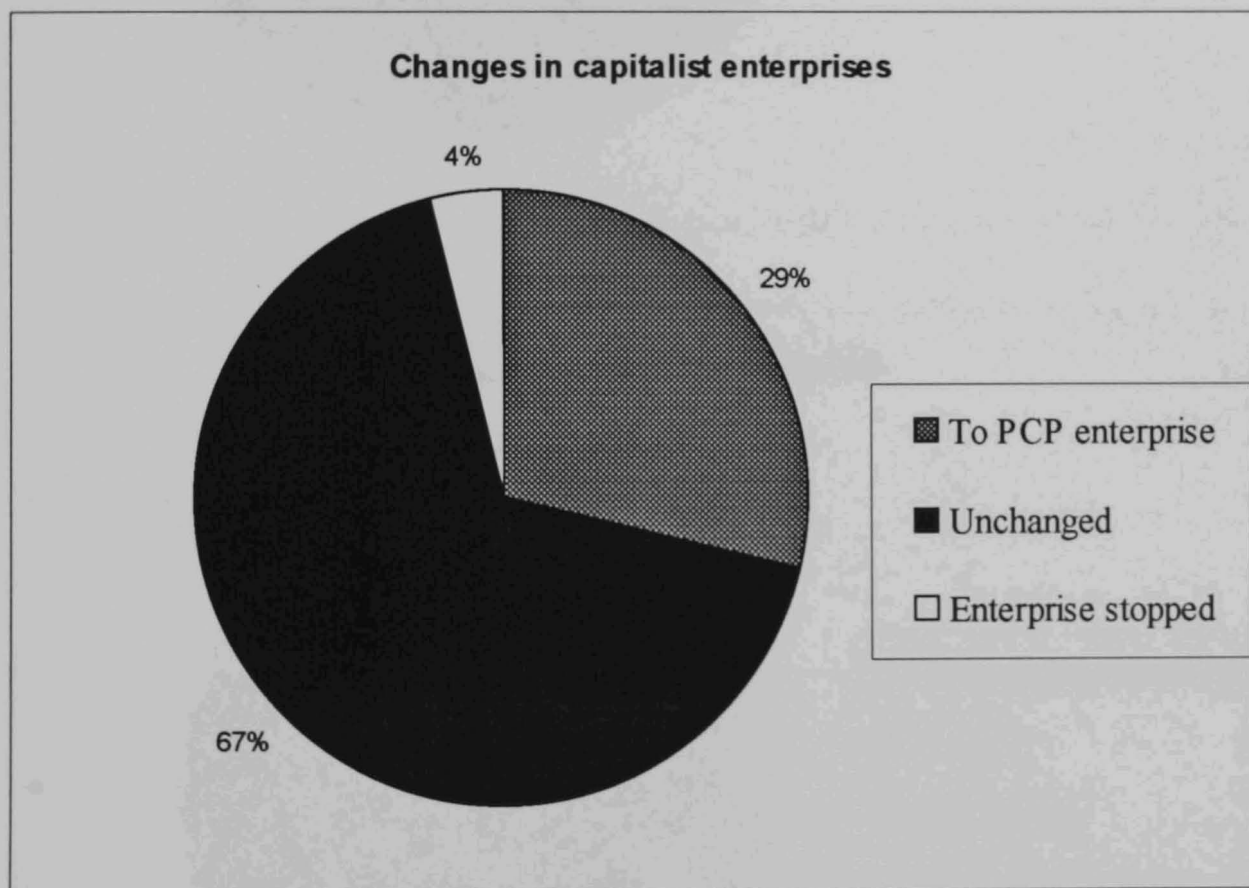


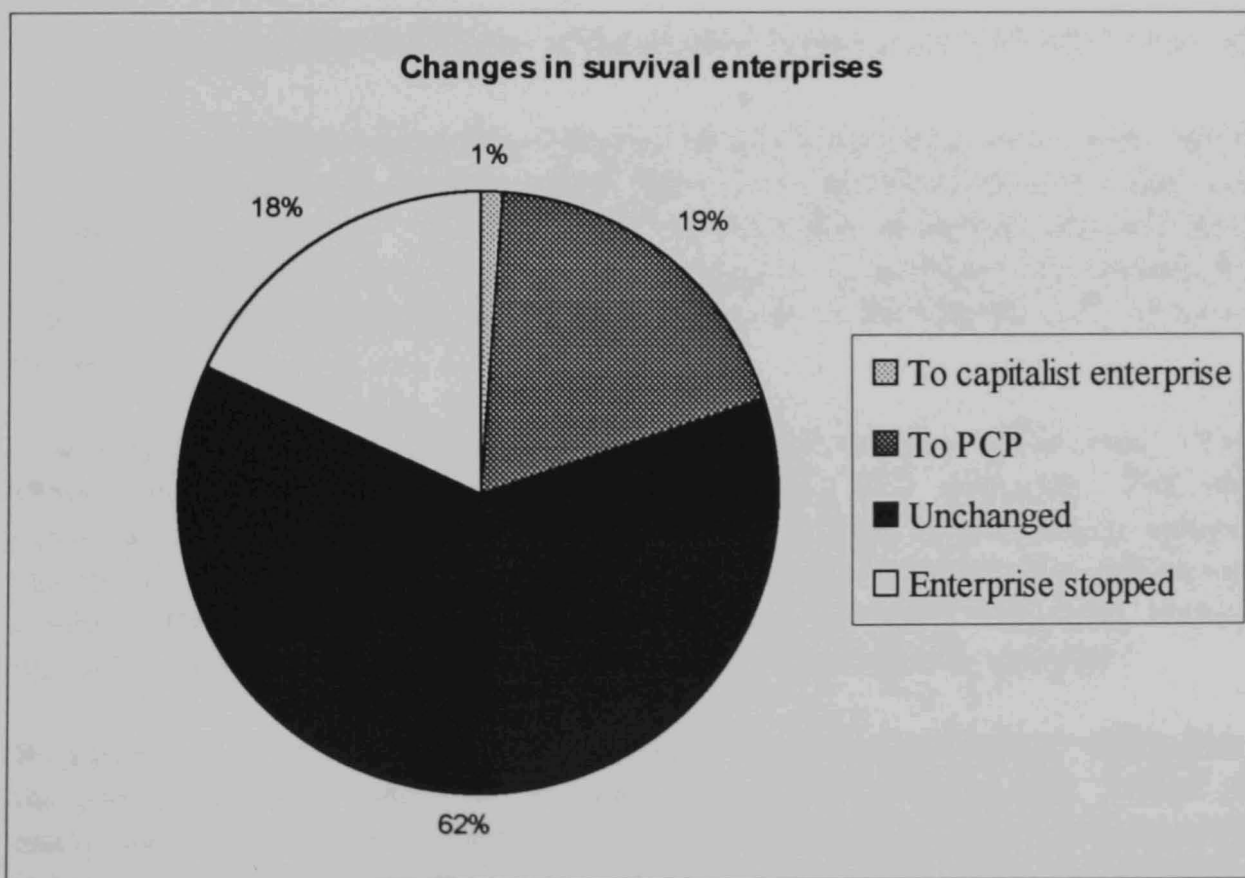
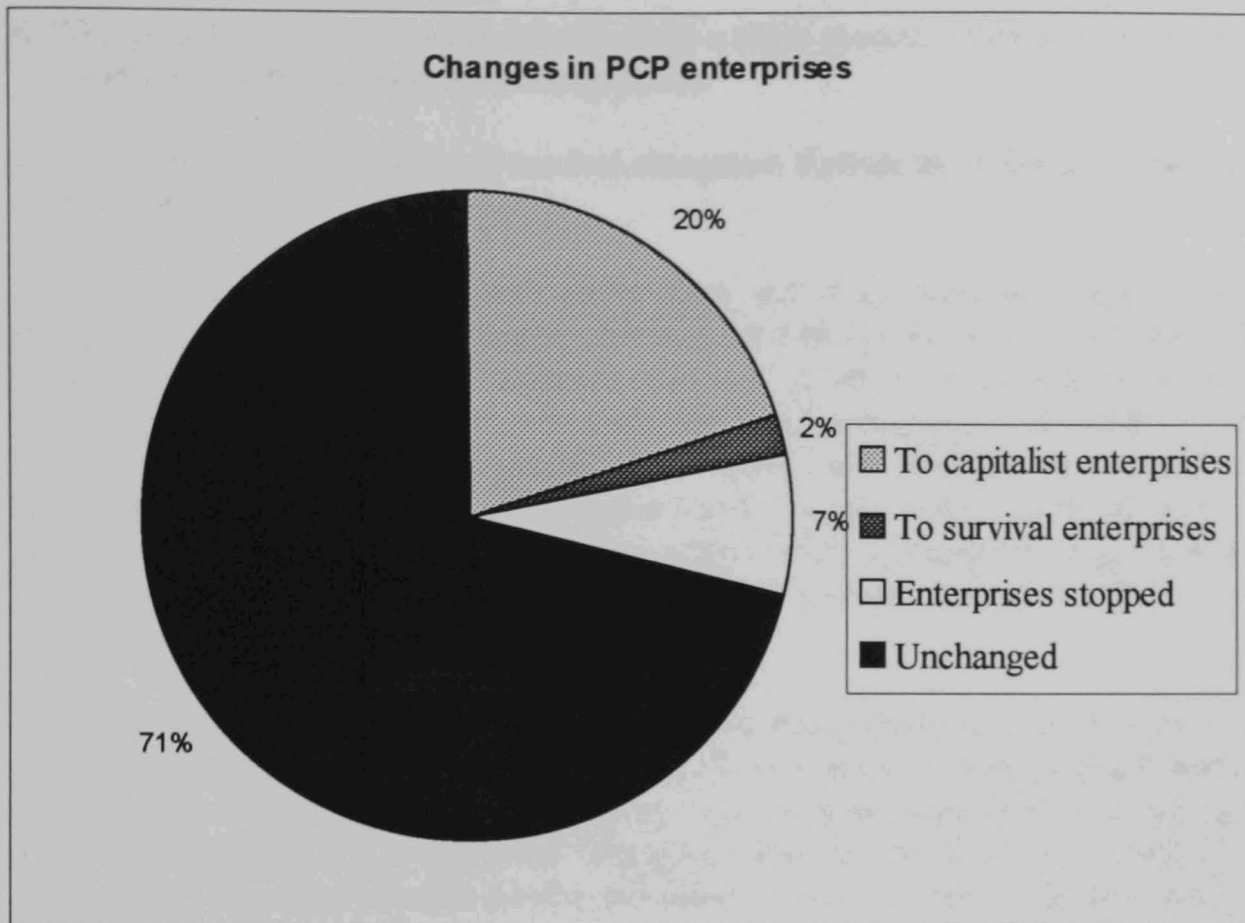
Note: The numbers in brackets represent the percentage change in each classification during the research period.

Various changes as reflected in the growth or decline of each classification can therefore be identified as occurring in Cato Crest. However the processes would not appear to be uniform. Figure 5.1. highlights the following four significant changes which are examined in more detail in Figure 5.2.

- decline from capitalist enterprise to PCP enterprise.
- growth from PCP to capitalist enterprise.
- growth from survival enterprise to PCP.
- the stopping of business activity.

Figure 5.2 Changes in capitalist, PCP and survival enterprises during the research period





The growth and decline in individual micro-enterprises can be aggregated to identify whether conservation or dissolution has taken place. Figure 5.3 shows three main trends in the research period, summarised as follows.

1. The conservation of petty commodity production through the growth in the number of PCP enterprises from 46 to 52, resulting in a 13% increase in such enterprises.

2. The growth of capitalist enterprises through a slight increase in their number from 24 to 26, resulting in a 9% increase in such enterprises.
3. The further marginalisation of survival enterprises through the stopping of sixteen enterprises during the period.

This apparent contradiction of both conservation and at the same time growth and decline of capitalist and survival enterprises is in part explained by the following two factors. Firstly it is possible that since the growth in capitalist enterprises is only by two it may be that the change is not significant enough at this stage to make any valid conclusions. Secondly the findings are limited since the research is of a fixed group of enterprises. Therefore what would appear to be happening is that while the main process would be the conservation of petty commodity production there is also a replacement of enterprises that have stopped through the introduction of new enterprises from outside the sample during the research period, which from observation would appear to be primarily survival enterprises.

However the main explanation would appear to be that growth and decline in individual micro-enterprises is continually occurring which results in a situation characterised primarily by the conservation of petty commodity production. At the same time there is occasional aggregate growth of enterprises into capitalist enterprises and the further marginalisation of survival enterprises which then cease to operate and the owners move into waged and temporary waged employment.

5.2.2 Changes observed in the occupational biographies of twelve enterprises

The twelve enterprise owners whose occupational biographies were compiled during the fieldwork period were identified as having operated eighty different enterprises during their lives, with an average of 6.7 per owner⁴⁴. This involved 33 separate changes between capitalist enterprise, PCP and survival enterprise, or 2.75 changes per enterprise. This supports the evidence of the survey that the processes of growth and decline are critical to the understanding of micro-enterprise development.

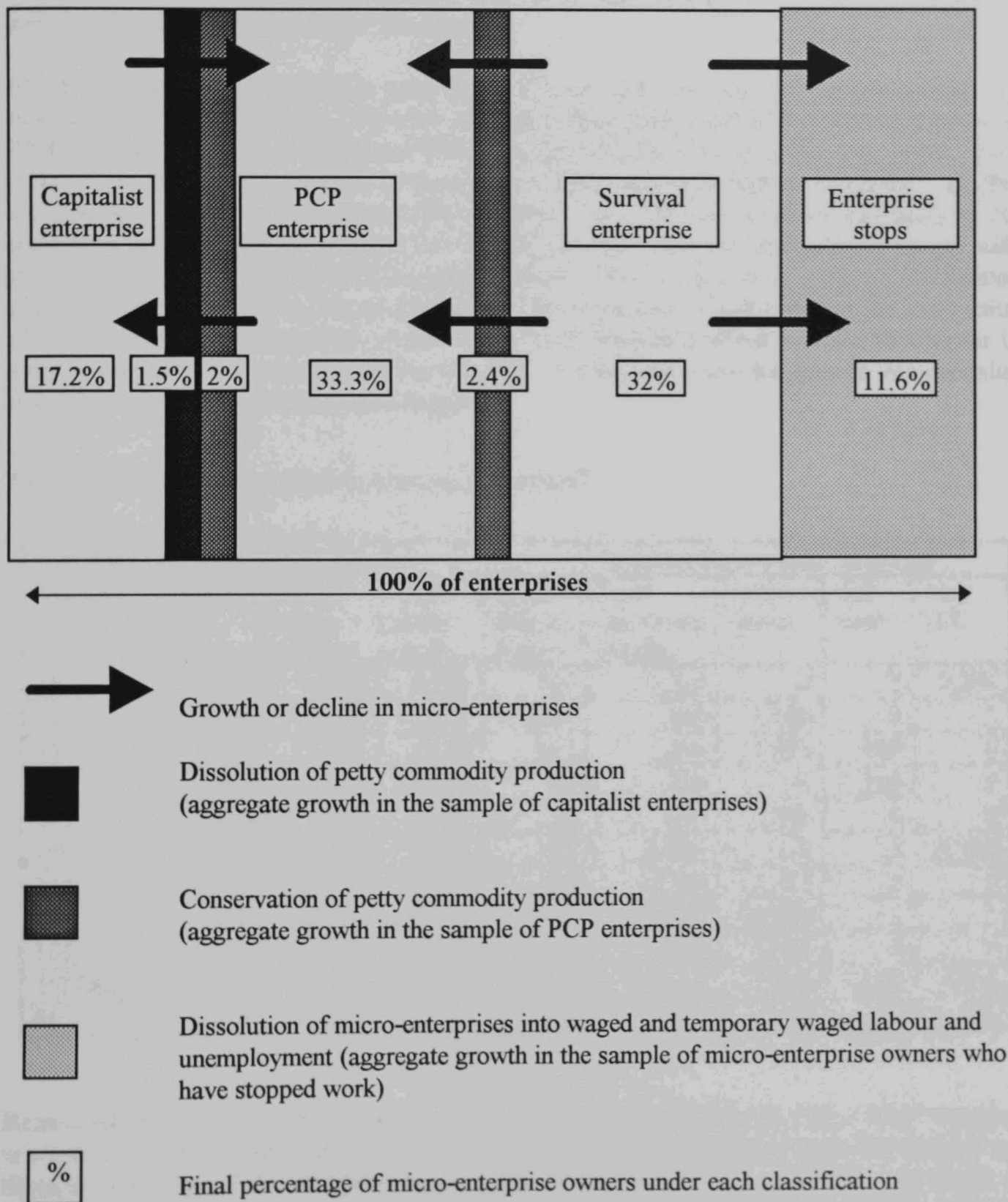
A detailed examination of the occupational biographies reveals a similar trend. Only one of the twelve enterprises has not at some time operated as a PCP enterprise. This enterprise has remained a survival enterprise throughout its life even when it has changed location or type of enterprise. In line with findings from the semi-structured interviews there appears to be limited evidence of the decline in PCP enterprises to survival enterprise. This rarely occurred and was typically a temporary phenomenon which was in most cases quickly reversed.

By looking at the enterprises over a longer time period the occupational biographies emphasise the growth into PCP enterprises and capitalist enterprises rather than decline into survival enterprises. The experience of growth of PCP enterprises into capitalist enterprises was common in seven of the occupational biographies. However while growth into capitalist enterprises was in some cases sustained the dominant trend would appear to be towards the maintenance of PCP enterprises over a number of different enterprises. Therefore even when the business became a capitalist enterprise or a survival enterprise this was in the majority of cases a temporary

⁴⁴ While the number is much lower than the 24 income opportunities identified by the bottle buyer of Cali (Rusque-Alcaino and Bromley 1979) it should be put in the context of the limited informal activity prior to the mid 1980s due to apartheid legislation.

phenomenon resulting in a reversion to a PCP enterprise at a later stage. This supports the findings from the survey that the maintenance of PCP enterprises is the main process at work in Cato Crest.

Figure 5.3 The process of conservation and dissolution in Cato Crest



5.3 Growth from PCP enterprise to capitalist enterprise

5.3.1 Semi-structured interviews

Nine PCP enterprises grew into capitalist enterprises during the research period. These were all interviewed as semi-structured interviews and were characterised in all cases by increased investment and a resulting increase in assets.

All of the enterprises invested in some form of fixed assets during the research period and subsequently employed people. The total invested in the period was R21,900 with an average of R2,433 per business, which represents 66% of the total fixed assets of the nine enterprises. Two types of investment were involved; investment in building and investment in equipment. R9,200 was invested in building premises by five enterprises. R12,700 was spent on equipment by six enterprises and included two refrigerators on hire purchase, two new refrigerators bought with cash, one second hand machine and one telephone line. This would indicate a rapid capitalisation of enterprises as part of the process of growth. The implication of this is that as the asset value of a business grows the owner is forced to move from household labour towards paid labour in order to maximise the return on the fixed assets. Accumulation and the growth into capitalist enterprises are therefore closely linked together.

Table 5.2 Statistics from semi-structured interviews⁴⁵

Statistics for the life of the business					Investments in research period			
Interview	Retained Profit (rands)	Total assets (rands)	Fixed assets (rands)	Initial start up capital	Total investment (rands)	Other (rands)	2nd hand	New H.P.
11	1,100	4,750	3,650	400	2,300	0	0	2,300
21	N/K	N/K	2,900	1,500	1,300	1,300	0	0
63	N/K	N/K	2,800	150	1,700	1,000	700	0
77	1,650	7,000	5,000	50	300	0	300	0
91	900	1,200	1,000	50	200	200	0	0
100	2,000	5,800	3,400	50	3,400	0	0	3,400
104	4,250	5,100	2,400	900	1,700	1,700	0	0
116	N/K	11,500	10,000	600	10,000	10,000	0	0
120	N/K	5,400	2,000	700	1,000	1,000	0	0
TOTAL			33,150	4,400	21,900	15,200	1,000	5,700
Mean	1,980	5,821	3,683	489	2,433	1,689	111	633

Balance sheets prepared in five of the interviews revealed an average of R1,980 in profit had been retained in the micro-enterprise. This constitutes 42% of the total assets of those five enterprises. Since the mean age of the enterprises is ten months the businesses have generated a net profit of R200 per month. It is unclear how far this is accumulated by the enterprise and how much from alternative sources of income. Regular visits to these enterprises identified that in only three cases could such profits be explained purely by the accumulation of profits. In the other two cases the owner or a boy friend were able to provide additional sources of income which suggest

⁴⁵ N/K means not known.

that given the fungibility of business finance not all the re-invested profit indicated in the balance sheet actually came from the business.

The other four enterprises all indicated that their businesses had grown during the period. In one case the owner had a full time job and the business provided a second income while the other three cases indicated that while the owner was not in formal employment he or she was able to use savings or alternative sources of finance to invest significantly in the business. One was through the owner using savings from past full time employment another involved money inherited on the death of the husband, while in the third it was unclear where finance had come from⁴⁶.

The second major characteristic in the growth of micro-enterprises was the movement from single to multiple enterprises. In all five cases this required the employment of staff to run the new or the old enterprise. Examining the types of new enterprises provides further indications of the process of growth at work. Four of these can be defined as 'new' enterprises in the sense of being uncommon types of enterprises in Cato Crest: a crèche, a pay phone, a restaurant and a hardware supplier. The choice of enterprise represents a move from typically less entrepreneurial ('safe') enterprises, such as spazas and shebeens, to more entrepreneurial and 'risky' enterprises.

However it should be pointed out that diversification is also part of a risk reducing strategy since it reduces the risk of outright failure. Four of the five enterprise owners were dependent on the business for their livelihood and given the limited alternative employment opportunities this would appear to represent a legitimate strategy. The fifth owner, who had a job, explained that diversification into gas cooker supply and the running of a telephone line employing two people was a sensible strategy even for him, given the uncertainty in the area and the jealousy of others if any one enterprise became too big. Such a risk reducing strategy also reflects the research evidence that the growth into capitalist enterprises may not be complete and may be reversed at a later stage for instance if one of the enterprises stops necessitating the laying-off of employees.

5.3.2 Occupational biographies

Seven of the twelve occupational biographies were observed to exhibit growth from PCP enterprises to capitalist enterprise. What is interesting is that such a change tended not to be permanent (Table 5.3). It is a process of growth and decline since only four of the occupational biographies finished as capitalist enterprises. All four enterprises changed at least twice between capitalist enterprises and PCPs, while the other three were only capitalist enterprises once before declining again, which suggests that the process of growth is not complete.

⁴⁶ Despite several visits to the owner and discussion with neighbours the researcher was unable to identify an alternative source of finance. However given the size of the investments during the period it was clear that some form of outside finance was involved, which may have been from employment, household or illegal sources.

Illustration 5.1. Pictures of capitalist enterprises



Picture of Chris and Mr Ncemu's restaurant , interview 18 (above) and a picture of Eric's 'Mr Phone' and gas supply business interview (below).



Table 5.3 The number of recorded instances of growth or decline in the occupational biographies of micro-enterprise owners

Interview	PCP to capitalist enterprise	PCP to survival enterprise	Capitalist enterprise to PCP	Survival enterprise to PCP
9	-	-	-	1
18	2	-	1	2
40	-	-	-	-
54	-	1	-	1
55	1	1	1	-
57	2	-	1	1
73	-	4	-	4
77	1	-	1	-
86	-	-	-	1
126	1	-	1	-
128	1	-	1	1
142	1	-	1	-
TOTAL	9	6	7	11

The following is a summary of the processes in operation in interview 18:

Chris left school at the age of nine to look after his father's cows. At sixteen he came to Durban and worked for two years in various domestic jobs until he was fired⁴⁷. He then spent six years in Inanda (1966-72), a peri-urban area of Durban operating a variety of survival enterprises and employed in various temporary jobs. He was continually arrested and his property confiscated during this period. Each time he was able to re-start with money from his girlfriend who worked as a domestic in town, but he was unable to accumulate any capital.

He went back to the rural areas before re-entering Durban in 1978. He worked for the next seven years in a variety of domestic positions and then in full time employment as a guard. During this time as a guard he began to make and sell leather belts which needed little start up capital and could be made during the night while he was working.

He was able to save enough to buy a second hand Chevy which he used at weekends and on days off as a pirate taxi. *He was able to grow from a survival enterprise to a PCP enterprise.* With the income from his job and the part time business he saved enough to buy a second hand kombi van. From 1985 to 1989 he worked as a taxi owner/driver in Inanda. His wife also earned money sewing and repairing clothes with a sewing machine which he had bought her on HP when he was working.

However he faced problems with the vehicle since it was old and would regularly break down. These problems were compounded by the violence in Inanda which forced him to stop the business. Fearing that his taxi would be burnt he sold it, moved to Cato Crest and purchased a second hand Datsun with which he operated a pirate taxi service from Durban station. He worked at night during this period, but also was very active in the struggle to settle on land in Cato Crest.

⁴⁷ A black African was only allowed to stay in Durban if he worked for one year as a domestic in a white household. If he was fired during that year he would have to re-start that whole year and if he was fired again before the end of the next year he had no right to live in Durban.

Through his involvement with the Crisis Committee he was able to secure ownership of one of the first water kiosks in Cato Crest. He built a spaza shop there with R400 from the taxi business and employed a boy and a girl to run the kiosk and shop. *The PCP enterprise therefore grew into a capitalist enterprise.* He then opened a second shop which his wife ran from their own home. He continued the taxi enterprise until he had settled permanently in Cato Crest and then used the money from the sale of the Datsun to build his house and put a deposit on a refrigerator. The refrigerator was bought on hire purchase, assisted by his friend at the furniture store from where it was purchased, who acted as a guarantor.

However these two businesses began to decline and so he stopped employing people and left the business to his wife to run. He says the decline in the enterprise was due to competition and the expenses of his household while a neighbour says that 'his wife is lazy'. *As a result the capitalist enterprise declined into a PCP enterprise.*

He then stopped the business since it was not profitable and his stock had been run down. Since he had no full time employment at this time he decided to start up a small outside restaurant with his limited savings from the previous enterprises to cook meat for the taxi drivers and workers at the taxi rank in Cato Crest. *The PCP enterprise therefore stopped and he re-started a survival enterprise.* He then managed to get work as driver of a taxi owned by a friend. However this taxi was then stolen. The owner of the taxi, faced with a temporary loss of income while he bought another taxi decided to go into partnership with Chris. The taxi owner invested in R1400 to build a bigger and more permanent restaurant while Chris, given his more limited capital, was able to provide the refrigerator, some of the building materials that he had stored over the years at his house and his labour. *The survival enterprise therefore grew into a PCP enterprise.*

The business has since gone well. Chris has now got a job as a taxi rank manager, based at the taxi rank and the taxi owner has decided to buy another taxi. They have decided to continue the partnership and have employed a woman to run the restaurant since their different jobs enable them to keep an eye on the business. *The PCP enterprise has grown into a capitalist enterprise.*

Chris has operated over eleven different enterprises to date. There have been a number of changes both in the type and category of enterprise. The process is therefore not a one way progression but is rather a series of stages of succession and regression, which not only determines the eventual classification of the micro-enterprise, but the whole process of conservation and dissolution. This fluctuating pattern has much to do with the scarcity of finance in South Africa. Accumulation resulting in growth occurs in various stages. In this example the accumulation of a refrigerator, building materials, contacts in the taxi business and the partnership are all steps that enables growth into a capitalist enterprise. Decline on the other hand occurs due to business failure, violence, crime, use of second hand equipment, and the adoption of risk reducing strategies such as seeking alternative employment in addition to the operation of a business. The net outplay of these factors will determine the outcome at any one stage.

The importance of understanding this process is that rather than looking at an individual enterprise one needs to look at the owner and his occupational history to understand more fully the dynamics of micro-enterprise development. Therefore to say that the average age of micro-enterprises in South Africa is only two years old is meaningless unless put in the context of the owner and how long he or she has been involved in the micro-enterprise sector. In the same way the survey question on start up capital sources is often meaningless since it only picks up the last source of cash injection into the enterprise whether from employment or self employment, but does not show how enterprises accumulate other capital assets over time. The use of occupational biographies therefore enables the dynamic nature of growth and decline in micro-enterprises in Cato Crest to be more clearly understood.

5.4 Decline from capitalist enterprise to PCP enterprise

5.4.1 Semi-structured interviews

A closer examination of the seven enterprises which declined reveals they can be divided into two groups; five businesses which have clearly declined and two businesses which have declined in terms of the classification used in the research but were able to accumulate assets during the survey period (Table 5.4).

Table 5.4 Statistics for enterprise assets and investments from semi-structured interviews

Statistics for the life of the business					Investments in research period			
Interview	Retained profit (rand)	Total assets (rand)	Fixed assets (rand)	Initial start up capital (rand)	Total investment (rand)	Other (rand)	2nd hand (rand)	New on HP
3	800	900	400	100	0	0	0	0
88	N/K	N/K	N/K	300	0	0	0	0
128	400	480	160	80	0	0	0	0
134	200	2,200	2,000	2,000	0	0	0	0
142	0	1,400	1,100	1,500	0	0	150	0
TOTAL	1,400	4,980	3,660	3,980	0	0	150	0
69	1,000	5,300	3,800	1,500	2,000	0	0	0
145	3,500	6,500	400	1,700	200	0	0	0
TOTAL	4,500	11,800	4,200	3,200	2,200	0	0	0

Five businesses had clear business problems. All had high fixed asset ratios, representing 60% of total business assets, and had demonstrated only limited growth potential since their start up⁴⁸. Given the retail function of such businesses this has serious implications for their income generating ability. As a result four of these had reductions in stock of between 40% and 55% during the research period. Such major drops in turnover resulted in falls in monthly income of R500 and above. The fifth⁴⁹ had serious cash flow problems due to poor repayment of customer credit. This initially forced the owner into temporary employment while his employee worked in the enterprise, but when this work ended he returned to the business and released the employee. Only one owner was able to make any investment in the business during the period⁵⁰. These difficulties resulted in serious cash flow problems and limited returns on both fixed and current assets. The businesses in such cases have reacted rationally by reducing costs through the substitution of owner and unpaid household labour for paid labour.

The type of employment is also important (see Chapter 7). In all but one of the cases employees were relatives from the rural areas who were paid amounts lower than the mean wage for Cato Crest (R270/month). The one exception, interview 128, a shoe repairer, provides a useful

⁴⁸ On average enterprises had increased in asset size by 90% since their start up.

⁴⁹ Interview 128 was a shoe repairer who had debtors of up to R440 during the research period. This represented approximately 90% of the business assets before the debts were written off.

⁵⁰ Interview 142 purchased a second hand gas cylinder for his refrigerator.

insight. Originally another man was employed and he was paid a piece rate, lower than the owner's to reflect the ownership of tools, but not significantly different. However when credit defaulters caused cash flow problems the owner was forced to seek casual work and laid off this worker and replaced him with a relative from the farm who was paid only R50 and given board and accommodation.

The decline of micro-enterprises is also reflected in changes in the type of operation and location. Three of the businesses changed operation⁵¹ while a fourth moved from separate premises to operating from his own house when he stopped employing someone.

The two other enterprises both grew in terms of assets⁵², lower fixed asset ratios⁵³ and turnover during the period and the move to household labour would appear to be more to do with choice than necessity. Both are single enterprises, with one family member working full time (well paid employment) and the other partner working in the business. Both felt when interviewed that there was no need or justification for employing someone to work in the business. It might be that since both had large outgoings for rural dependants, school fees and rent the choice to save money in this way was a rational decision.

It would therefore seem that the two businesses both characterised by accumulation of assets, through refrigerators bought on hire purchase and investment in business premises, are in a temporary phase which will ultimately lead to their growth into capitalist enterprises. The situation of the other five enterprises is less clear and it is more likely that they will remain as PCP enterprises with limited opportunity to experience growth.

5.4.2 Occupational biographies

Seven of the occupational biographies at some point declined from capitalist enterprises to PCP enterprises (Table 5.3). All had at some time also experienced growth into capitalist enterprises (see 5.3.2.). The view of a fluctuating process of growth and decline is again supported by the evidence where four enterprises that had experienced decline subsequently grew into capitalist enterprises.

In five cases turnover decreased although this was often combined with a change from some form of multiple enterprise to a single enterprise allowing the owner or household member to work in the business without paid labour. Theft and the death of a household member also provided other reasons for decline. In the latter case the funeral arrangements for an owner's father used up all the stock and savings of the business and hence its ability to employ a person (interview 142). Violence resulted in a panel beater losing his customers as he had to relocate to a safer area. It took six months for the business to re-establish itself before the owner was able to employ someone. Finally the end of full time employment meant that a taxi owner stopped employing a driver and drove the taxi himself.

⁵¹ One changed from a wholesale to a retail shebeen business, one changed from selling a variety of drinks to just beer and the other two changed from running two shebeens to only one

⁵² Businesses had increased in asset size by 260% since their start up.

⁵³ Fixed assets represented only 35% of total assets.

5.5 Growth from survival enterprise to PCP enterprise

5.5.1 Semi-structured interviews

Thirteen survival enterprises grew into PCP enterprises during the research period. It would appear employment was not associated with such growth, since in only two of the cases (interviews 70 and 85) was the employment of a household member helpful in the accumulation of capital.

In all the other interviews the lack of employment posed a major financial problem for survival enterprises. The fungibility of business finance and the demands for school fees, bus fares, school uniforms and payments to rural dependants mean that there is a continual drain on business income. The typical response was for stock turnover to be very rapid and for purchasing to be just enough to meet the stock shortfall each day or week. Any extra money was typically spent on general household expenses. The problem with this strategy was that any extraordinary expenses such as illness or to meet school fees meant a drain on business income and or assets.

Alternative strategies are needed to avoid this perpetual cycle of growth and decline. Savings were identified as providing a means of breaking this cycle. Twelve of the thirteen enterprises saved. The one exception operated a partnership which increased the finances available for the business. Stokvels are particularly important in this process (see Chapter 8) since they enable people to save regularly through the year. This money is then available in December for the major annual expenses of Christmas and the start of the school year in January. Stokvels also provide flexibility in cases of extraordinary financial need during the year by having a facility to lend to stokvel members.

The possession of land also has money-earning potential. In one case, where there was no other source of income, three rooms were rented for R50 each a month (interview 9). This additional income combined with the owner's parent's pension meant that the owner was able to build a separate house and increase stock. Rental earnings are a significant income supplement to the owners of the rented accommodation in which 6.4% of the residents in Cato Crest live (Makhathini and Xaba 1995).

Alternatively capital can be generated through the sale of land. Since all the residents of Cato Crest are squatters there is no legal tenure. However a system of informal ownership operates which is based in part on possession of the land and in part on the authority of the local community structure the Civic.

In the earlier stages of the invasion of Cato Crest squatters marked out large plots. These were then sub-divided into smaller plots to be sold or built on and rented out. Income is therefore derived from this process. Also for a plot to acquire a degree of legitimacy the Cato Crest Civic must be approached for approval. This generally means the giving of a number and the payment of a fee. This process is all informal and as a result open to corruption as fees are levied before a number has been allocated (Natal Witness 1995a). Four different sets of numbers have been allocated by various authorities⁵⁴ to try and control the growth of the settlement and in all cases

⁵⁴ Authorities involved in this process have included that Natal Provincial Authority (NPA) and the Cato Manor Development Association (CMDA).

numbers have been duplicated. Actual market values of land are unclear, but based on observation and the researcher's experience of actually informally purchasing land, a plot for a small two room shack would cost R200.

It was the combination of access to additional plots and membership of the Civic that enabled one of the interviewees to accumulate a significant sum of money with which the enterprise stock was increased and the business premises rebuilt (interview 115). Without this source of finance the enterprise would have remained in its previous stagnant state. Although in the survey the sale of land was denied by all interviewees, participatory observation revealed that it was a common practice. For example on one occasion the research assistant, having prevented one person building on his sister's land, interviewed on the same day the man who had sold that piece of land, although the interviewee still denied that he sold land!

Customer credit would also appear to play a role in the growth of survival enterprises. While a higher proportion gave credit (73%) compared to other survival enterprises (57%) the amounts both monthly and weekly were lower. However to understand its effect on the enterprise it needs to be compared to other figures. One method is to contrast weekly credit with weekly turnover. As a result survival enterprises growing into PCP enterprises have a weekly credit⁵⁵ to turnover ratio of only 30% compared to 115% for survival enterprises that remained unchanged. Since turnover provides an estimate of weekly purchasing it would appear that enterprises with lower ratios have proportionally less capital tied up in credit than survival enterprises, where the ratio is significantly higher.

However while enterprises experiencing growth from survival enterprises to PCP enterprises had lower ratios they did not appear to perform better in terms of credit management⁵⁶. It would therefore seem that the choice to offer credit limits the turnover of survival enterprises, and that any improvement in the credit position through growth is a result of other factors.

5.5.2 Occupational biographies

The occupational biographies again illustrate the dynamics of the process. Seven out of twelve experienced growth from survival enterprise to PCP enterprise. In all the cases survival enterprises were the first enterprises the owner had operated. This was primarily due to the limited start-up capital that was available. Finance was all provided by other household members or relatives as either a gift or a loan and ranged from R20 - R50.

Three of the enterprises can be viewed as being at the bottom end of the process of growth and decline in micro-enterprises. Transition is therefore between survival enterprises and PCP enterprises. All are characterised by a continual struggle to accumulate capital in a situation of fluctuating net household income. Two have the added difficulty of being single parents while the third has children at school and a husband whose employment has often varied.

In an attempt to break out of this cycle the response of all three has been to seek to change the type of enterprise and where possible to diversify. Interview 73 provides one of the best examples of this process where different combinations of sewing, the selling of second hand clothes, meat and vegetables, running of spazas, and concrete block making have been tried.

⁵⁵ Customer credit in Cato Crest was typically both for monthly and weekly periods.

⁵⁶ Survey evidence suggests that they had a higher incidence of debt problems than survival enterprises.

During the research period the business would continue to fluctuate, sometimes accumulating assets, other times losing assets, forcing one of the enterprises to stop.

The owner described the business as going 'up and down' and comments it was 'off' because of shortages of money when the household would often 'take money to eat' from the enterprise. It was 'on' when they gave credit to people and it was given back; also her husband would give money sometimes. The ability to accumulate was therefore a continual struggle and while growth was achieved it was or is likely to be reversed by financial pressure. The other four enterprises were in different ways able to break out of this cycle and experience growth by becoming PCP enterprises and then capitalist enterprises.

5.6 Maintenance of PCP enterprises

5.6.1 Semi structured interviews

Thirteen of the thirty three PCP enterprises that remained unchanged throughout the research period were interviewed a number of times using semi-structured interviews. This clarified the different reasons for the PCP enterprises remaining unchanged.

The thirteen enterprises could be divided into two groups. The first, made up of three enterprises, was characterised by accumulation. All indicated that they were considering employing someone in the future and would therefore appear to be on the verge of growing into capitalist enterprises. Two had regular flows of income into the business from either the husband or the father. This meant that the owner was able to save and to increase stock. The importance of savings was clearly seen for one of these businesses when all her stock was stolen one night (interview 50). The business was able to continue by using savings from her bank account to buy new stock.

The third business (interview 54) was characterised by a very slow process of accumulation. No alternative flows of income were available to the household and therefore accumulation was by the slow increase in stock, saving in a stokvel and the wife sewing on a part time basis. In addition cash holdings were kept to a minimum through regular visits to the wholesaler and market, typically every other day and stock and business premises were slowly upgraded.

The other ten businesses all appeared to be fairly static. Periodic accumulation was typical, but tended to be in working capital which would then decline in other periods as household needs put pressure on the business finances. Diversification was adopted by four of the businesses to ensure that if one of the enterprises declined due to problems of credit or turnover the other would still be able to make a profit.

Two of the micro-enterprises were of particular interest. One electrical repair enterprise owner was characterised by a great deal of industry and business acumen but faced a problem of accumulation (interview 147). The owner was an illegal immigrant and therefore he was unable to save through the banking system or the local stokvels. This was compounded by problems of customer credit which at one point exceeded R800. He was unable to enforce this credit given fears he would be reported as an illegal immigrant, but yet found it difficult to obtain sufficient business without offering credit.

The second enterprise brewed and sold local beer, mainly on credit. This was rarely recorded and even more rarely paid back by the customers. In this case the owner seemed to have little concern for enforcement of the debts as long as she had sufficient money to buy the materials for the next day's beer and food for the household (interview 50).

5.6.2 Occupational biographies

Two occupational biographies illustrate the process of conservation of petty commodity production; interviews 54 and 73.

Interview 73 while occasionally declining into a survival enterprise, was able throughout thirteen different enterprises to be continually maintained as a PCP enterprise. Three key factors in this were household employment, savings and diversification. Household employment maintained an alternative flow of income. In periods when this was not the case the business would often stop or decline into a survival enterprise. Savings, particularly through membership of a stokvel, allowed the accumulation each year of a sum of money that could cover school expenses and any extra-ordinary needs. Finally through diversification the owner operated a number of enterprises at the same time which as a whole provided for household needs. During the research period the owner operated a small spaza shop and had joined a group making cement blocks and another group sewing clothes. The problem with this strategy was that while being a good risk reduction policy it restricted her ability to invest in each business and therefore each business was continually being restricted in its ability to grow by its limited capital base.

Interview 54, mentioned in the previous section, demonstrated a slow process of accumulation throughout its history which periodically experienced set backs due to the effects of violence, illness and attitudes of neighbours. For example the business had been growing rapidly and the owner had increased his stock to R200 and was buying between R60 and R140 per day in stock. However a nearby shopkeeper became jealous of his business and sent his children to buy some cabbages from him. The money they paid him was 'bad money' and all the cabbages died, because the jealous man had used a sangoma to put a spirit on the enterprise through the money. The owner was therefore faced with the choice of either spending a lot of money to hire a sangoma to protect him from this spirit or to move. He chose the second option, but either choice would have resulted in a loss of income and stock and the decline of the business.



Illustration 5.2 Pictures of two survival enterprises. A small trader selling from a table (above) and a vegetable seller (below) selling from outside his house.



5.7 Enterprises that stop

Sixteen enterprises stopped during the research period; one capitalist enterprise, three PCP enterprises and twelve survival enterprises. In examining the reason for business failure there was a significant difference between the survival enterprises and the other enterprises. Three non-survival enterprises ceased operating due to unforeseen circumstances. These included stock being stolen (interview 74), the owner having to bail out his cousin from prison (interview 58) and a car accident which left the woman with two broken legs requiring a long period of hospitalisation (interview 38). In all three cases the owner had a full time job or alternative household employment and when the present problems are resolved they are likely to re-start the business. The remaining non-survival enterprise owner (interview 144) chose to close his business and seek full-time employment in town. Originally he planned to employ someone to run the business while he worked, but he was unable to find someone suitable.

The survival enterprises, however, appear to have stopped due to a different set of problems, relating more to a lack of money and the opportunity of alternative work.. This very much reflects the nature of survival enterprises and their marginal status within the economy. Eight enterprises stopped due to a lack of money, two had the opportunity of full time employment and two stopped due to personal problems⁵⁷. Survival enterprises have limited resources and are therefore very vulnerable to changes in the circumstances of the enterprises or the household. None of the owners had full time employment at the beginning of the research period and only three had a household member in full time employment. Households are therefore very dependent on the income of the enterprise to meet their needs. Since ten of the twelve owners are traditional providers for the children, namely women, demands such as school fees and uniforms, bus fares, medical bills and basic food needs will typically take money out of these business at various times of the year. Therefore given limited capital such enterprises will periodically stop.

The ability of the business to continue or re-start is therefore very much a reflection of the ability of the business to obtain additional finances. Six of the businesses said that they were planning to re-start the business when they had some additional money from their husband or family while the others were resigned to seeking some form of casual or full time employment. Enterprise owners who have stopped their enterprise have therefore experienced a severe case of decline into waged and temporary waged employment.

It was observed that while a significant number of enterprises stopped during the period there was a degree of replacement of these enterprises by other survival enterprises. After the sample of 138 enterprises had been selected and initially interviewed it was observed often on a daily basis that new enterprises were being set up by owners who previously were not running enterprises from such locations. While it was impossible to interview them it would appear that the majority were to be survival enterprises⁵⁸. This supports the evidence from the occupational biographies of enterprise owners engaged in survival enterprises who fluctuate in and out of waged employment, temporary employment, unemployment and survival enterprises.

⁵⁷ These included a pregnancy and a quarrel between the husband and wife which meant the business had to stop.

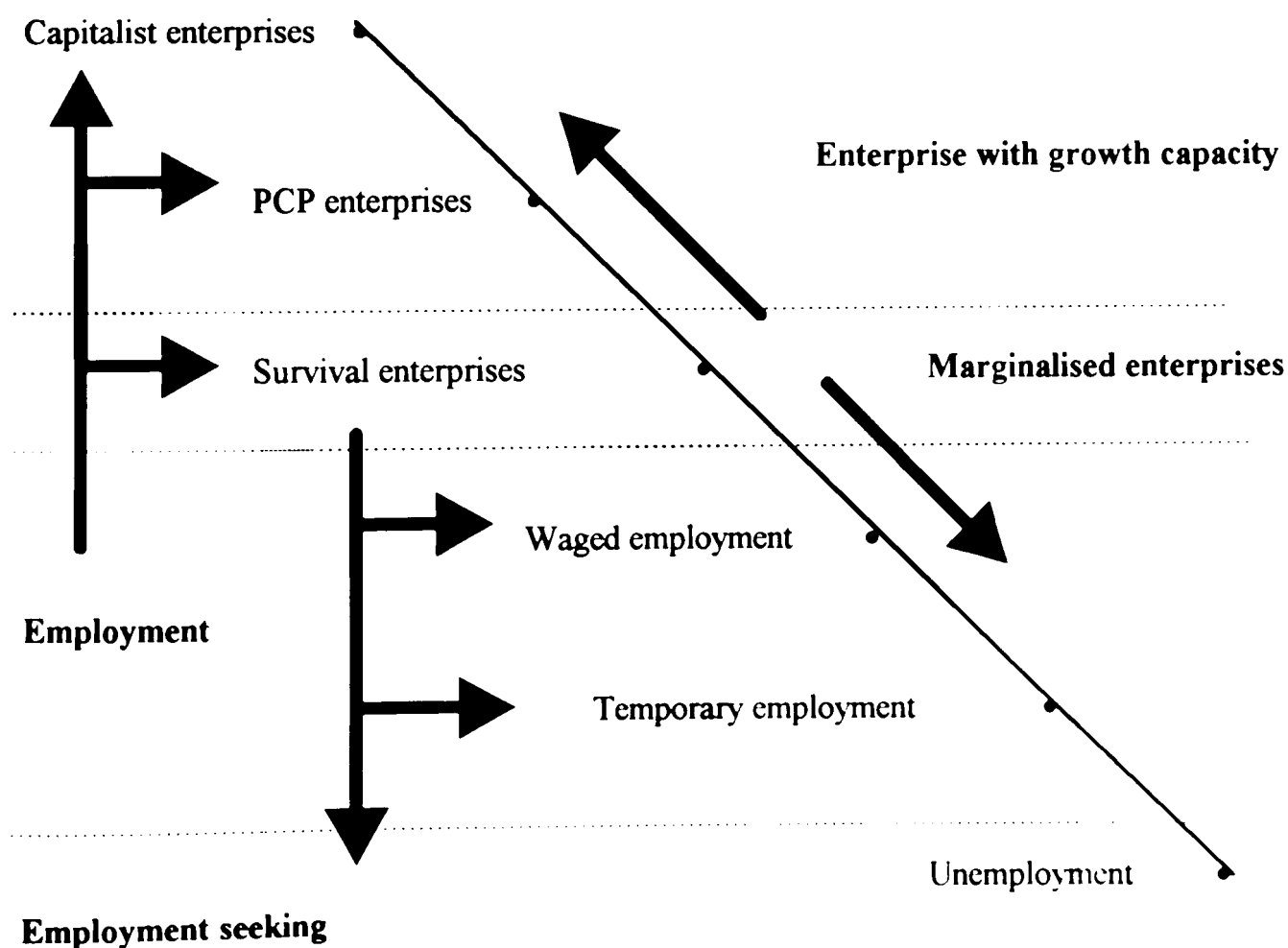
⁵⁸ The appearance of such enterprises indicated the possible survival nature of such enterprises since they used tables and door to door selling, did not advertise, were retail traders and had very limited stock.

5.8 Conclusion

Significant changes were observed to have occurred in the classification of micro-enterprises surveyed during the research period. The aggregate results of these changes as reflected in the process of conservation and dissolution reveals two main trends. Firstly the growth in the numbers of both PCP and capitalist enterprises and secondly the decline in survival enterprises into waged employment, and unemployment. This would suggest that enterprise owners could be divided into two groups, those who operate in a situation of extreme marginalisation either as survival enterprises or in a variety of forms of waged labour, and those whose enterprises have some limited capacity to grow and which are mainly conserved as PCP enterprises.

Marginalised enterprises therefore fluctuated between survival enterprises and the search for waged employment. In contrast enterprises with capacity for growth were maintained as PCP enterprises or grew into capitalist enterprises. The following chart (Figure 5.4) illustrates a possible continuum of types of employment. Four types of employment can be identified; self employment through capitalist and PCP enterprises with some potential to growth, survival enterprises with limited capacity to grow, and various forms of waged employment, and unemployment. As this chapter has identified these groups are not closed, but rather represent broad categories with a degree of overlap. For example while survival enterprises are characterised by limited capacity to grow this does not exclude some growing into PCP enterprises, rather it reflects the general characteristic of that group.

Figure 5.4 Types of employment



The chart also illustrates the links with employment and unemployment. Decline for survival enterprise owners is into forms of waged employment and unemployment, while waged employment need not be separate from forms of self employment (Chapter 7). Finally the term unemployment needs to be clarified. It is used in the thesis in a very broad sense to include any form of employment or non-employment outside the categories mentioned. It therefore includes a range of activities from job searching and domestic duties to criminal activities such as drug dealing and theft.

From the analysis of the survey, semi-structured interviews and occupational biographies the process of conservation is a major component of enterprise development. Hypotheses one and two examine two components of this process relating to the role of finance in determining the dissolution of petty commodity production and the marginalisation of survival enterprises. This chapter has demonstrated that Cato Crest is characterised by the conservation of petty commodity production rather than its dissolution. Although these findings support the rejection of hypothesis one the subsequent Chapters will examine how financial options and needs lead to the conservation rather than the dissolution of petty commodity production.

Secondly it has observed that a significant number of micro-enterprises (43%) operate as survival enterprises in an extreme form of marginalisation which is characterised by an inability to grow and periods of cessation of the enterprise as the owner seeks or finds temporary or full time waged employment. This supports the proposition of marginalisation of micro-enterprises in hypothesis two.

Having identified the process at work the next step is to identify the various components of finance as defined by the terms financial options and needs in order to determine its influence on the process of growth and decline of each micro-enterprise. It is the result of these changes to each enterprise which determine the aggregate process of change. This section summarises the main aspects of financial needs and options identified in the research that influence this process.

5.8.1 External finance

There would appear to be little evidence of the impact of formal financial institutions directly providing finance to micro-enterprises in Cato Crest. Table 5.5 identifies the main forms of external finance available for micro-enterprises both in the start-up and the ongoing development of a business.

Chapter 6 will explore in more detail the role of external finance and its contribution to the process of growth and decline of micro-enterprises. Having identified an environment in which financial options are restricted it will seek to identify the role of the remaining options in determining whether it leads to disguised or dependent employment or the increased marginalisation of such enterprises (hypothesis two).

Table 5.5 Role of external finance in the process of growth and decline of micro-enterprises

Finance for start up				Finance sources after start up		
	Household finance	Husbands finance	Redundancy	Finance from formal finance institutions	HP	Stokvels
Capitalist enterprise	2 (12)	2 (12)	1 (6)	2 ⁵⁹ (12)	11 (65)	-
Capitalist to PCP enterprise	-	-	-	1 (14)	3 (43)	-
PCP to capitalist	-	1 (11)	-	-	3 (33)	-
PCP enterprise	4 (12)	2 (6)	3 (9)	-	10 (30)	3
Survival to PCP enterprise	2 (15)	3 (23)	1 (8)	-	2 (15)	-
Survival enterprise	8 (19)	7 (16)	1 (2)	-	3 (7)	2 (5)
Enterprise stops	2 (12)	4 (15)	-	1 (6)	4 (15)	-
Total	18	19	6	4	36	5
Percentage	13%	14%	4%	4%	26%	4%

Note: Figures in brackets are percentages of each classification

5.8.2 Waged employment as a source of finance

This would appear to play a major role in determining the outcome of these two processes. In particular the lack of alternative employment opportunities is likely to perpetuate survival enterprises which are unable to be conserved into PCP enterprises. The implication of this is that the most marginalised in the formal waged economy, the unemployed, are also likely to be the most marginalised in the enterprise sector. In contrast the ability to grow or be maintained as a PCP enterprise would appear to be associated with the opportunities for waged employment by both the owner and household members. Chapter 7 will explore in more detail the role of waged employment and its contribution to this process

5.8.3 Savings

In all the processes savings seem to play a key role. Given the scarcity of finance the need to generate savings both in anticipation of household needs and to assist in expansion of the business is vital. The ability or inability to achieve either or both of these functions would appear to be central in influencing the role of these two processes. Both bank accounts and stokvels are widely used, but it would appear that bank accounts play a leading role in facilitating the process of growth into capitalist enterprise enterprises while stokvels are more influential in the maintenance of PCP enterprises. Chapter 8 will explore the role of savings both through bank

⁵⁹ Both these two enterprise owners also had hire purchase finance.

accounts and stokvels in the process of growth and decline of micro-enterprises. In addition it will explore hypothesis four that such savings are subordinated to the needs of the formal capitalist sector.

5.8.4 Finance reducing measures and partnerships

Partnership provided an opportunity for individuals faced with limited finance to combine resources in order for survival enterprises to grow into PCP enterprises. This would appear to be a good short term strategy, but the long term implications are less positive since all the partnerships examined seemed to have inherent problems of management and long term sustainability which limited their ability to grow into capitalist enterprises.

Finance reducing measures appeared to be important in the area of spreading risk through the development of multiple activities. At the lower end this encouraged growth by increasing the variety of sources of income and hence reducing the risk of failure. At the other end it also encouraged growth into capitalist enterprises through the adoption of a strategy which was aimed at developing new riskier enterprises, while still ensuring that there was a flow of income into the household from the original 'safer' enterprise. Chapter 9 will examine the role of these measures on the process of growth and decline of micro-enterprises.

5.8.5 Hire purchase

This would appear to be important in the growth of PCP enterprises into capitalist enterprises. Access to hire purchase and the investment involved typically trebles the asset values of most businesses. This would seem to encourage the employment of labour both to meet the increased turnover, but also to maximise the returns on the investment in fixed assets. Chapter 10 will explore the role of hire purchase both in terms of the process of growth of micro-enterprises and in terms of how it relates to the capitalist sector (hypothesis four)

The role of finance needs to be seen in the context of an environment in which access to formal finance is limited and rather random. The financial options are therefore reduced to own finance, hire purchase, some form of equity or finance reducing measures. Within each of these areas finance would appear to play a major role in the determining of growth or decline in micro-enterprises. The next four chapters seek to develop an understanding of how these four areas influence the process of conservation and dissolution.

6. The role of external finance in the process of conservation and dissolution

'Credit story. You ask credit me say no, you get sore me give credit, you no pay me get sore, so me give no credit anymore, better you get sore.'

(Hand-written poster in a store on Umbillo Road, Durban 6/4/94)

6.1 Introduction

Five potential sources of external finance were identified in the research; household, formal financial institutions, alternative sources of finance, stokvels and hire purchase. This chapter will examine the role of formal financial institutions and then develop some of the distinctions within household finance and alternative sources of finance and how it impacts on micro-enterprises. A more detailed examination of household finance, the role of stokvels and hire purchase will be conducted in Chapters 7, 8 and 10.

6.2 Formal sources of finance

Four sources of formal finance were available to micro-enterprises: bank loans, development agency loans, trade credit and hire purchase. This section will review the first three of these areas while hire purchase will be examined in detail in Chapter 10.

6.2.1 Bank finance

Only one case was recorded of anyone obtaining bank finance for their business (interview 27). In this case the owner was able to use an insurance policy he possessed as a security for the loan. Mkise operated a large wholesale shebeen at a hostel and a smaller one in Cato Crest and employed five people in the two enterprises. The bank loan of R15,000 enabled him to expand his operations significantly, although due to problems of violence it was impossible in the research to examine in detail how his enterprise had changed⁶⁰. However he was only able to get the loan because he had a life assurance policy which he was able to use as collateral.

Bank finance would therefore appear to have very limited impact in terms of provision of finance. This contrasts with its major role as a savings institution. This will be developed more fully in Chapter 8 but suffice it to say that the net result of such limited inflows of credit finance and larger outflows of savings with regard to the banking system is the subordination of micro-enterprise finance to the needs of the formal capitalist sector.

⁶⁰ Mkise was forced to go into hiding and leave Cato Crest during the second half of the research period because his alleged involvement with one of the political parties had led to threats on his life. The hostel enterprise continued during this time, but he had to reduce the activity of the shebeen in Cato Crest.

6.2.2 Development agency finance

Only three cases of institutional finance (2%) were identified in the research period. Two loans were from IBEC⁶¹ and one from Get Ahead⁶². The majority of micro-enterprise owners (90%) stated the lack of knowledge of financial alternatives as the reason why they had not taken out a loan. It should also be noted that the two loans from IBEC were applied for after the researcher had informed the owners about this source of finance. It is unclear whether the decision to approve such loans was influenced by the researcher since although he did not recommend them they were both able to say they had received business advice from the researcher. However it is clear that the information provided to these two owners about IBEC and the loans they offer was significant in making them apply for such finance.

In each of the three cases the impact of the loan was different. In the first case the loan allowed the woman (interview 38) to move out of a dependent situation in which she had to work for another woman in town in order to use a sewing machine to a more independent position in which she was able to purchase a machine and work in the business from home. The full impact however was not seen during the research period since although she had repaid the loan she was not able to expand the business because she was hospitalised after a car crash.

The other two loans were from IBEC. Msome owns a spaza shop and a taxi business (interview 126). He was able to borrow R5,000 to be repaid over eighteen months and used this to increase his stock and to contribute to the purchase of a second hand taxi. Msome should have been able to expand his two enterprises because of this. However the taxi was stolen⁶³ and therefore it was only the spaza shop that was able to expand and increase its turnover. Zuma was able to borrow R2,000 for one year for his spaza shop (interview 55). Unfortunately Zuma did not use the money well due to poor management of the business and very little of the money was invested in new stock, the rest being kept in the bank. During the research period the business actually declined from a PCP to a survival enterprise as Zuma was unable to decide whether to employ someone or use household labour. This case provides a good example of where the increased availability of finance should have resulted in the employment of labour in order to maximise the use of that capital. Sadly Zuma was unable to make that decision and due to the failure of either himself or household members to regularly work in the enterprise or buy new stock the enterprise declined. Zuma had continued to meet his repayments during the period in order to maintain his credit rating, but it will have cost him R800 in interest over the twelve months. It is interesting to note that the only enterprise to decline from a PCP to a survival enterprise had access to external finance.

In conclusion agency finance, which seeks to provide loan funds from alternative sources⁶⁴ would appear to play a very limited role, and in Cato Crest provided under 2% of micro-enterprises with access to finance. It would appear that such finance if it increased in scale has the potential to act as an alternative flow of funds into the micro-enterprise sector to offset some of the negative flows through the banking sector. However whether increased availability of such finance will actually assist in the growth of micro-enterprises will depend on the impact of such loans. In the

⁶¹ Independent Business Enrichment Corporation. Loans are provided on an individual basis to both micro-enterprises and small enterprises.

⁶² Get Ahead is a private NGO that provides loans to groups of five enterprises. The initial loans are for R500 and then bigger amounts in subsequent periods.

⁶³ Probably by the original owner, since he found it again near that person's house in Inanda at the end of the research period.

⁶⁴ The sources in these cases include USAID, Mobil and Anglo-American.

three cases the evidence is rather inconclusive and certainly the case of Zuma indicates that credit rather than being the panacea for enterprises has actually lead to increased dependence and indebtedness by the owner.

At present given its very limited role in poor communities such as Cato Crest and the apparent reluctance of agencies to expand the provision of credit into such communities in any significant manner it can only be considered as a very minor contributor to enterprise finance..

6.2.3 Trade credit and dependent enterprises

Trade credit has been identified in the literature as being a significant source of finance (Harper 1984). However in Cato Crest, and it would appear in much of South Africa (Hirschowitz and Orkin 1991), there is very limited access to trade credit. Only one case was identified where the owner, Mtembo, was able to receive trade credit for his wholesale shebeen operation. He was given about R900 in credit, which was based on his last order for drinks. He had to repay the credit on the day of the next order which was typically weekly. However during the research period the enterprise changed from a wholesale to a retail shebeen. The old supplier was unwilling to offer trade credit since the level of trade was now too small and a new supplier was therefore found. The owner pointed out that the cost of the drink supplied by the old supplier was higher than the new supplier which suggests that an implicit interest was being charged on the trade credit. It is also interesting to note that it was the fact of the owner being in full time employment in the formal sector that was the determining factor in persuading the supplier to forward credit to him.

In the survey no one else stated that they had received trade credit. In fact the actual question provided a lot of amusement since most interviewees stated that it would be impossible to get credit. The only case where trade credit was given widely was for bread although given its short duration this was not viewed as trade credit by the interviewees. Three bakeries delivered to Cato Crest and all sold bread on credit to spaza shops. However, since bread was purchased normally on daily basis credit was only extended for that period of time. Stock levels of bread varied between R20 and R200, although for most enterprises it rarely exceeded R20⁶⁵ and therefore its impact on enterprise finance was minimal.

Trade credit in a situation of scarce finance has in the literature been identified as a factor in leading to dependent relationships between the micro-enterprises and the suppliers of such trade credit (2.4.3). However in Cato Crest it would seem that trade credit provides very minimal finance for the majority of enterprises and that in the case of bakeries when it is offered it does not appear to lead to any dependent relationships. This would appear to contradict the theory that in a situation of scarce finance access to trade credit leads to dependent forms of labour. What would appear to be happening is that the trade credit for the supply of bread is being offered to all customers, thereby removing the possibility of a dependent relationship, since the micro-enterprise owners can choose alternative sources of supply if they are not happy with the product of one of the bakeries. However in most cases the lack of trade credit removes a further financial option therefore maintaining the finance scarce environment in which micro-enterprises operate.

⁶⁵ Bread was bought in trays of 12 loaves, with the cost of a tray varying between R18.60 and R22.20 depending on whether it was brown or white bread.

6.2.4 The dependent nature of micro-enterprises in Cato Crest

Although it would appear that trade credit was very minimal and where it did occur it did not lead to dependent employment it would seem that the majority of micro-enterprises already operate in a form of dependent employment. For example, while spaza shops appeared to have the flexibility to choose between a number of wholesalers the variety of products purchased was very constrained. The largest capitalist enterprises in Cato Crest purchased a maximum of 80 different products while the PCP enterprises typically purchased between twenty and forty products and in most cases the same products were being sold in all the spazas.

However what is important is not only that enterprises have a very limited variety of stock purchases, but that purchases are almost exclusively products of the formal capitalist sector. The following table (Table 6.1) provides an example of the products purchased by a capitalist enterprise (interview 104) and a PCP enterprise (interview 50). Products have been divided into those manufactured and those packaged by the capitalist sector. As the table shows the majority of products are manufactured by the formal capitalist sector, but even when the role is primarily to package, the products have still to come from larger capitalist farms rather than smaller peasant farms.

Micro-enterprises would therefore appear to be acting as the last chain in the distribution network for the capitalist sector. From this perspective the enterprise owners can be viewed as operating in some form of dependent employment. This would appear to have a number of implications for the type of relationship between the micro-enterprises and the formal capitalist sector. These can be seen in a study of the following two areas.

1. It would appear that while credit is rarely offered to micro-enterprise owners for the purchase of stock a proportion of the products are then on-sold to their customers on a credit basis (9.3.3). The capitalist sector which has greater access to finance is therefore able through this dependent relationship to pass on the function of credit provision to micro-enterprises who are themselves operating in a finance scarce environment.
2. The sale of beer or soft drinks provides another example of how the formal capitalist sector is able to pass on part of the cost of selling the products to the micro-enterprise. The majority of drinks are sold using recycled bottles. The enterprise owners have to buy the crates and empty bottles as part of any sales agreement with the wholesaler. For soft drinks this costs R20 and for beer this costs R8. This represents either 40% or 25% of the total cost of such crates of drink. This cost becomes more significant when it is recognised that it is very difficult to transport individual crates by hand from the wholesalers and therefore enterprises have to either act as local wholesalers within Cato Crest or buy enough crates to make the hiring of transport worthwhile. In either case this means a heavy investment in empty bottles and crates to support such purchases. For example Goge (interview 54) who owned a PCP spaza enterprise had six crates of soft drink and six cases of beer which represented 10% of his total assets; Temba (interview 15) who owned a PCP shebeen enterprise had crates valued at R130 which represented 20% of the total assets of the enterprise. The manufacturers and formal wholesalers are therefore able to pass on the cost of the bottles and crates as well as the risk of loss from broken bottles to the micro-enterprise owners.

Table 6.1 Analysis of stock purchases by two enterprises in Cato Crest

Interview 104		Interview 50	
Packaged	Manufactured	Packaged	Manufactured
Apples	Aromat	Beans	Bread white
Beans	Baking powder	Eggs	Bread brown
Crest rice	Biscuits	Milk	Candles
Eggs	Bleach	Nyala	Cigarettes
Imana	Bread (Brown)	Oil	Coca cola
Nyala	Bread (white)	Onions	Eclairs
Oil	Bull Brand meat	Rice	Imana
Onions	Candles	Salt	Knorrox cubes
Oranges	Chocolate eclairs	Self raising flour	Lion beer
Peanuts	Cigarettes	Sugar white	Lucky star
Potatoes	Clothes pegs	Sugar brown	Matches
Salt (fine & coarse)	Coca Cola	Tomatoes	Nels soap
Samp	Cremora		Omo
Self raising flour	Disprin		Paraffin
Sugar white	Holsum		Queen cakes
Sugar brown	Ijuba beer		Rajah curry powder
Tomatoes	Kiwi polish		Soap
	Knorrox soap		Steel wool
	Kool Aid		Surf
	Lion Beer		Trinco tea
	Lucky star		Vegetable curry
	Matches		
	Meths		
	Mosquito coils		
	Nels soap		
	Queen cakes		
	Red label tea		
	Ricoffy		
	Smoothies		
	Soap		
	Stera Mel		
	Sunlight soap		
	Tartaric acid		
	Trinco tea		
	Vegetable curry		
	Wire wool		
	Yeast		

In both these cases the effect of such a relationship is more serious for PCP and survival enterprises than capitalist enterprises. In the case of credit it would appear that capitalist enterprises have more scope for choosing when and to whom to provide customer credit to (Chapter 9) and with regard to the purchase of bottles and crates it would appear that the faster turnover of drink sales achieved by the larger capitalist shebeens and spaza shops means that the relative cost of such purchases is minimised.

6.3 Household sources of finance

While the majority of start up finance (73%) was from own savings or redundancy money 27% of finance was from household members. Household finance can be divided between finance provided by the husband, and finance from the extended household⁶⁶, but does not include alternative sources of income from the owner which is covered in more detail in Chapter 7. This was because in the field work enterprise owners made a clear distinction in interviews between own finance, extended household finance and finance from their husbands. In the case of husbands' finance it would appear that even if a wife had a job she did not contribute directly to any enterprise owned by her husband, although in practice this would not be the case given the fungibility of enterprise and household finance. In contrast finance was given to nineteen micro-enterprise owners (14%) as start up finance by their husbands⁶⁷ in the survey.

6.3.1 The role of gender in household finance

Gender played a significant role in explaining why finance was recorded only for husbands and not for wives giving to their husband's enterprise.

Firstly, all finance from husbands was from full time paid employment in the formal economy. It would appear from observation that working men were able to earn significantly more than women. The majority of women worked in low paid work as domestics, while male employment although typically manual had slightly higher remuneration therefore men were in a better position to offer finance to household members to start up enterprises. This observation supports other research on gender distinctions in South Africa (Friedman and Hambridge 1991).

Secondly, there was no recorded instance of a woman providing start up finance for her husband's enterprise. In part this reflects the differential earnings of men and women but it also reflects a methodological problem, since, given the chauvinistic nature of South African society, it would be unlikely for men to directly admit to receiving money for their business in this way. As mentioned above it would appear that while women did not directly provide start-up capital for their husbands, their contribution to the household budget enabled male enterprise owners to avoid funding household expenditure from their enterprise.

Thirdly and most importantly, the inclusion of husband's finance in household finance rather than own finance reflects an important distinction made by Cato Crest residents. Ownership was in most cases clearly related to the financing of the enterprise. If the woman put a significant sum of money into the enterprise then she was the owner, irrespective of who in the household worked in the enterprise and vice versa. Husband's finance is different in that ownership in this case is not dependent upon the source of finance. On deeper investigation, the semi-structured interviews revealed that this form of finance was in many cases not directly channelled from the husband to the enterprise. Often the husband would provide a fixed sum to the wife for household expenses. The woman would then choose to invest this money, which she now views as her money, in her enterprise. However because the sums are small it would mainly support survival enterprises

⁶⁶ Extended household here is a broad category to include any household finance outside the nuclear family.

⁶⁷ Relationships between members of a household are recorded in the thesis as described by the interviewees themselves. For 'husband' and 'wife' we might prefer to substitute the word 'partner', however residents used such terms to indicate stable relationships in a society in which marriage is uncommon due to the expenses of lobola (the bride price).

(74%). Cases in which the husband put money into the enterprise therefore tended to involve lower start up amounts (mean R203) and was not part of a regular flow of finance since in only three cases did it allow such enterprises to accumulate capital and grow into PCP enterprises. In such a situation of scarce finance access to finance from husbands typically leads to the maintenance of survival enterprises in a situation of extreme marginalisation. There was therefore little hope of other sources of finance, and additional drains on the enterprise, due to pressure on the enterprise to contribute towards the household budget, often resulted in the enterprise stopping.

It is interesting to note that on the four occasions when the distinction with regard to ownership was blurred and on a number of other occasions when clarification was needed, the micro-enterprises were PCP enterprises. This again reflects the nature of such enterprises operating in part as non-capitalist enterprises. In contrast, when staff were employed it was obvious who was the owner of the capitalist enterprise.

In conclusion gender would appear to place women at a disadvantage in respect of finance for micro-enterprises. Firstly women would appear to be in a position of disadvantage in the labour market both in terms of availability of work and of earning power. Secondly, women in employment would typically contribute to the family budget and therefore indirectly contribute to the finance of a micro-enterprise owned by the husband, but would not take any share of ownership of that enterprise. In contrast men would typically view the enterprise as their own if they contributed significant sums of finance to the enterprise either directly or indirectly and it was only when small sums of finance were provided that this sense of ownership was lost; in most cases this meant such finance for women could only assist survival enterprises.

6.3.2 Extended household members and finance

A further eighteen owners received start up finance from their extended household. In only three cases was this provided as a form of credit and in all three the amounts were small and under R100. The money was lent with the expectation of it being repaid, but the terms and conditions of such credit were very flexible since there was no time limit and no interest was charged. Of the others only two involved start up capital above R500 and in each case this was provided by the mother of the owner who was in full time employment. The low sums of finance involved is reflected in the median value, which was only R100 from extended household members. This suggests a similar pattern to that of husband's finance where low start-up finance leads to limited accumulation and no change in the majority of micro-enterprises.

A closer examination of household finance using semi-structured interviews reveals that of the six enterprises that had grown prior to the research period, two capitalist enterprises and two PCP enterprises had some form of income from employment by the owner in addition to start up finance from the extended household. The owner of the two remaining PCP enterprises received unusually high start-up sums of R3000 and R2000 respectively from their mothers and were therefore not in need of additional sources of finance.

The remaining twelve enterprises that received household finance all started as survival enterprises, but only three cases had a member of the household in full time employment. For these enterprises household finance was one of the last financial options available and it is not surprising that only two of these remaining twelve enterprises were able to accumulate sufficient capital to grow into PCP enterprises.

In a situation of scarce finance access to household finance whether from extended household members or husbands would appear to provide little opportunity for micro-enterprises to accumulate capital and grow, and as a result such micro-enterprise owners are likely to remain marginalised within the South African economy.

6.4 Informal sources of finance

In Chapter 5 a number of alternative sources of finance were observed to be used by different micro-enterprises in Cato Crest. These include rent, sale of land, community politics and access to water points and have been grouped together under the general heading of alternative sources of finance. The following section will review each of these areas and the impact such finance has had on micro-enterprises.

6.4.1 Rent and sale of land

The 'ownership' of land appeared to provide a useful role in household and micro-enterprise finance. Cato Crest residents live in an informal squatter settlement with no legal title to the land, however due to the history of the area and the present politics of the South Africa there was an implied *de facto* ownership of the land by the residents (see Chapter 4). Because the land invasion in Cato Crest occurred in waves a three tier system of land tenure developed, comprising bigger land owners, owners of individual small plots and those who rent. This distinction is not very clear at first glance since there are no big land owners anymore, but an examination of the history of Cato Crest and observations during the invasion of the Dunbar Road⁶⁸ area which happened during the research period provide valuable insights into how this process works.

What appears to happen is that in the first waves of invasion, once the right to squat has been established by the resident, there is a general occupation of land. The plot sizes chosen are much larger than typical household sites and during the later waves of invasion these larger plots are subdivided and sold to new residents. This therefore provides the first source of finance for the household and in the case of enterprise owners such as Ray (interview 115) provided a source of finance for their shebeen.

However this source of finance is constrained by the amount of land that is owned and available to be sold by any one person. A more long term source of finance was through the rental of shacks built on the land by the owner. Six per cent of residents in Cato Crest rented properties (Makhathini and Xaba 1995) with a monthly charge of approximately R100 per room. In two cases (interviews 9 and 18) this was a clear source of finance for the enterprises which enabled them to grow from survival enterprises into PCP enterprises during the research period. Without this source of finance it is very unlikely that any accumulation would have occurred and both would have remained as survival enterprises.

⁶⁸ Dunbar road is the area beyond Wiggins and adjacent to Cato Crest which was invaded by Cato Crest people as well as residents of other settlements in the area.

6.4.2 Water

Cato Crest has two systems for provision of water; kiosks and individual water drums. The water kiosks are located throughout the area. These are owned by the local water authority who meter each kiosk, but are managed by people in Cato Crest. It is not clear how people gain access to managing such kiosks. It would appear that a deposit of between R100 and R200 is required, but it would also appear that contacts in the Civic and the exercise of patronage assisted people in gaining such kiosks although it was unclear if this had to be paid for or not⁶⁹. The manager collects a charge of 10 cents for each 25 litres of water that is used by residents. Five cents is kept as a profit by the owner and five cents is paid to the water authority at the end of the month. The majority of water kiosk managers operated some form of enterprise from the same location. These were in all cases viewed as survival enterprises although there were a number of variations in the type of ownership.

- Firstly, the manager might pay someone to run the water kiosk, and that person would then sell vegetables or a few other goods from the kiosk. Hence a capitalist enterprises existed since the owner employed someone to run the kiosk while he managed the enterprise.
- Alternatively the manager of the kiosk might also to run a small shop and therefore gain additional revenue from both the water selling and the enterprise. These two were the most common forms of ownership.
- A third option was for the owner of the kiosk also to provide the worker with a stock of goods to sell in exchange for that worker managing the kiosk, and for the owner to gain profit only from the water kiosk. This was only one case, but represented a case of dependent employment as although the worker was technically self-employed (since the profit from the selling of stock went directly to him), he was dependent on the owner for the site to work and the original stock.

If a household purchases an individual water drum it can receive a supply of water each day. Water is piped to each container⁷⁰, but payments are based on a metered reading. Again someone takes on the contract to meter the water, to collect payments and to open the taps daily; in return he is paid 40% of the total water bill for each customer. Only two cases were identified where the manager of the water meter also owned his own enterprise and in both cases the management of the water meter was an additional source of revenue that enabled the PCP enterprise to remain unchanged throughout the research period.

The management of water kiosks and water meters therefore provides an opportunity for generating income for the household and for the micro-enterprise. However, it should also be pointed out that while the management of the water kiosks could be viewed in itself as an enterprise the reality was that it was a form of disguised employment in which, while the sale of water was their responsibility, both the kiosk and the water were owned by the water authority. Discussion with the managers of water kiosks also reflected this since in all the cases their view was that they were in effect working for the water authority. Therefore while the water kiosks do provide a source of income for households it needs to be put into perspective: the running of such a service enables the water authority in effect to employ people to manage water services at much

⁶⁹ This uncertainty may explain the lack of clarity as to the cost of obtaining agreement to manage the kiosk.

⁷⁰ Small plastic surface pipes deliver water from the mains to the water drums. At the mains the water is metered and the manager of the kiosk opens the valve to each water pipe for one hour per day in order to fill the 200 litre drum.

lower cost than if they were directly employing them. For example the income from a water kiosk would appear to be in the range of R200 to R400 a month while full time manual employees were observed to earn in the range of R800 to R1500 a month⁷¹. Therefore the operation of such water kiosks represents an innovative way for the water authorities to provide low cost water supply to informal settlements but would appear to achieve this through the creation of an exploitative method of disguised employment. However from the perspective of the individual enterprise owner it does provide an additional source of finance in a situation of scarce finance that has the potential to assist micro-enterprises to grow.

6.4.3 Community politics

Corruption⁷² would appear to play a role in enterprise finance in both providing direct finance for some enterprise owners as well as providing preferential access to sites for people friendly with political leaders. It was impossible to quantify this or exactly to define it since such issues are very blurred and their status as facts are reliant on observation and rumour. However during the research period due to the close involvement of the researcher with Cato Crest residents and community leaders two clear ways were identified by which the misuse of power by community leaders lead to financial benefits to enterprise owners.

The first related to the selling of land. This was legitimised by the allocation of a house number in exchange for an unspecified payment to community leaders. It is unclear how much individuals benefited by this process, but the fact that a number of community leaders were involved in running micro-enterprises suggests that it could provide a source of income for micro-enterprises.

The second related to access to land for enterprises. From observation during the research period it became clear that a number of enterprise owners were able to gain access to land which had previously been excluded, due to their connections and influences. For example during the research period two enterprise owners whose enterprises subsequently grew into capitalist enterprises were able to acquire land near the taxi rank which had previously been set aside by the community leaders as residential development as part of the re-development of the area⁷³. It is unclear whether any payments were made, but both enterprise owners had close links to the community leaders.

There would appear to be a strong relationship between being a community leader and running an enterprise. From a practical point of view enterprise owners were more flexible in the time that they could commit to community problems during the day and therefore it is not surprising that over half of the active community leaders owned micro-enterprises. However while there was certainly benefit to be gained from such involvement it was often asserted by community leaders that they were volunteers and therefore any benefits represented a payment for services offered to the community.

⁷¹ Wage rates were variable, but from interviews and the socio-economic survey of Cato Crest (Mean R1,665 per month) this would appear to be the lower range for employment.

⁷² Corruption here is used in a very broad sense to include the misuse of power and the allocation of resources by community leaders based on patronage.

⁷³ During the discussion about the redevelopment of Cato Crest the community had agreed that some land was to remain empty so that when development happened people could move from their present homes onto this empty land, enabling formal houses to be built.

In conclusion it would seem that access to power whether directly or through friends facilitated the potential addition of finance for enterprise owners. However its significance for enterprise development needs to be seen in terms of the wider perspective of South Africa. At present Cato Crest is a squatter community with very limited resources. Land is therefore the only real resource that can be exploited. As South Africa develops and particularly as more resources come to poor communities like Cato Crest as part of the development of the 'New South Africa' the opportunities for exploitation of such resources increases. Then corruption on such a scale will not only provide a significant source of finance for enterprise owners in power, but more seriously also have a detrimental impact on the communities that the resources are designed to benefit, through the wrong application of such resources on the basis of patronage rather than other more appropriate criteria.

6.5 Conclusion

This chapter has demonstrated that micro-enterprises in Cato Crest operate in an environment in which there is very limited opportunity for external finance.

- There is very limited opportunity for loans from banks or development agencies with only 2% of the sample receiving access to such finance.
- Trade credit is of very limited importance in Cato Crest and where it occurs is typically only provided on a daily basis.
- Household finance is both of very limited size and duration and therefore has little potential in influencing the growth of micro-enterprises
- A number of alternative sources of finance are used by micro-enterprise owners. These provide an opportunity for growth of micro-enterprises, although their exact role depends on the enterprise and the particular source of finance.

The result of this is that a scarce environment for finance exists in which own finance, savings, and hire purchase are the only options for the majority of micro-enterprise owners. Hence micro-enterprises excluded from any of these three options are dependent upon finance reducing measures and in most cases a permanent state of marginalisation as survival enterprises.

This can be seen in an examination of the micro-enterprises whose owners do not have full time jobs, do not save and who have not used hire purchase. Thirty seven (27%) micro-enterprises fall into this category of which only four (11%) experienced growth and in each case only from survival enterprise to a PCP enterprise. The majority of these micro-enterprises (64%) are either survival enterprises or enterprises that have stopped during the research period. It would therefore appear that scarcity of finance is associated with the marginalisation of micro-enterprises into survival enterprises and the cessation of such enterprises. This therefore supports hypothesis two that a situation of scarce finance leads to the marginalisation of micro-enterprises into survival enterprises and enterprises that stop.

7. The role of waged employment and household expenses in the process of conservation and dissolution

'You cannot run the business and not work'

(Interview with Cynthia (interview 85) in Cato Crest)

7.1 Introduction

This chapter examines the role of employment and household expenditure in the growth and decline of micro-enterprises. It argues that employment, in particular that which is regular and well paid, is a major factor in the ability of micro-enterprise owners to accumulate capital and therefore grow into PCP enterprises or capitalist enterprises. It is also argued that those who are excluded from such employment are also those most likely to operate marginalised survival enterprises and to be those owners of enterprises that cease to operate.

7.2 Sources of employment and their impact on enterprise finance

A number of forms of employment need to be distinguished. These are based primarily on how people in Cato Crest classified their employment.

1. Full time employment, which ranged from well to poorly paid, was where people viewed there to be a degree of permanence to the work. The critical point was therefore not the total amount of money coming in each week, but rather the guarantee of a regular flow of money into the household.
2. In contrast temporary work was work where there was no guarantee of permanence. This also included part-time work, in which 11% of the economically active population in Cato Crest was employed (Makhathini and Xaba 1995).
3. A third category was that of domestic work. This is similar in character to temporary work since it was often part time and in all cases low paid.
4. The final category was that of informal employment. This includes those who had additional informal businesses in other parts of Durban and those who worked for micro-enterprise owners in Cato Crest. In the first case earnings tended to be more regular and larger and also provided the opportunity to transfer assets between different enterprise operations when necessary. However in the second case salaries were much lower (mean R280) although it would appear to be a significant form of employment absorbing 5% of the economically active population in Cato Crest (Makhathini and Xaba 1995).

7.2.1 Full time employment and the growth of micro-enterprises

An examination of the survey data reveals that only five (31%) of the sixteen capitalist enterprises that remained unchanged had a household member in full time employment and only two (12%) of these businesses were started with money from full time employment. This however represents a rather static view of these enterprises. It fails to take into the account the dynamics of micro-enterprise development and the various stages and fluctuations in the growth or decline in such enterprises which were identified in Chapter 5. A closer examination of the 16 capitalist enterprises using semi-structured interviews reveals that eleven owners (69%) actually had some form of full time employment in the past or present which had contributed significantly to the accumulation of capital in their enterprises.

This process is illustrated by the example of Msome (interview 126) who operates a large spaza shop and taxi business and whose household is at present fully dependent on the enterprises for its support. Although Msome started his present business using profits from his taxi business in Chesterville⁷⁴ the original capital for his first taxi and his skills as a driver were the result of twenty years work prior to 1985 spent in full time employment. During this time he was able to save capital in order to invest in a second hand van, bought in 1985. This example illustrates the point that surveys which fail to grasp the previous history of business activity tend to distort and hide the true nature of enterprise development and the growth and decline of such enterprises. It is therefore critical to combine surveys with more qualitative work.

There is a strong association between waged employment and the growth of PCP enterprises into capitalist enterprises, supported by the fact that eight (88%) had some form of full time employment in the household. Four of the enterprise owners (44%) were in full time employment that allowed some form of accumulation and another four owners (44%) had been employed in the past and used savings from that work to invest in their enterprise, enabling growth from a PCP enterprise into a capitalist enterprise.

This process is illustrated by the occupational biography of Leonard (interview 77), who owned a panel beating enterprise. Leonard worked for 15 years in a number of formal jobs. During this time he developed his skills as a welder and was able to use some of his wages to buy a number of pieces of second hand machinery through the lay-by scheme. He bought a grinder (R150), a generator (R2000), a drill (R129) and a compressor (R1500) from pawn shops in town. These each took between six and twelve months to purchase. Each time he would make a deposit of R100 and then continue to pay what was owed when he had money from his pay cheque. It was only when all the money had been paid for each piece of equipment that he was able to take it from the pawn shop and use it. Initially he worked at weekends on cars for his friends and neighbours. He lived off the money from his job in the week and the profits from the business were invested in further equipment and premises. By July 1991 he had built up enough custom and equipment to resign from his job and began working full time in his business. Soon he was able to employ two people and began to save regularly each month. In this example employment was critical in facilitating Leonard to accumulate capital and to grow from a PCP enterprise into a capitalist enterprise. However in 1993 when violence flared in Bhambayi⁷⁵ where he lived, he

⁷⁴ Chesterville is a nearby township where Msome used to live. The original taxi owners in Cato Crest all came from Chesterville. One of Msome's wives still lives there and he still maintains strong contacts with the area.

⁷⁵ Bhambayi is an informal settlement in Inanda, near Amoati where the researcher carried out his initial field work (Chapter 4).

was forced to flee the area. Therefore when he started again in Cato Crest he had the equipment from his old enterprise which he had managed to salvage, but not sufficient custom to employ any staff. Over the next six months he was slowly able to build up custom and then employ people in the new business enabling it to grow again from a PCP enterprise into a capitalist enterprise.

It would appear that where the owner has now or had in the past the opportunity to work in full time employment, the micro-enterprise has the potential to accumulate capital from such income and therefore it is more likely to grow from a PCP enterprise into a capitalist enterprise.

7.2.2 Limited employment and the decline of micro-enterprises

In contrast survival enterprises that remained unchanged were characterised by more limited employment opportunities. Fifteen (45%) had some form of full time employment in the household (either past or present). Ten had no other form of employment in the household while eight had only some form of temporary or domestic employment as sources of alternative income. The result of this is that in many cases household finance is dependent on the income earned from the business. Given the fungibility of enterprise and household finances this results in a continual drain on business finances and an inability to save or invest.

This position was characterised by Annacletha (interview 40). She has been involved in four different survival enterprises since 1982⁷⁶. In each case the business has only been able to provide a supplement to her household. In the past she has worked as a domestic and her mother occasionally sends her money, but she has never been able to earn enough to break out of the cycle of poverty in which there is only enough money after meeting the basic needs of the household for the replacement of the stock she has sold that day or week. This extreme state of survival does not allow for any extra-ordinary or unplanned expenditures. In any poor community these are common occurrences. When Annacletha became pregnant she had to spend all the business money on the birth and the upkeep of the resulting twins. Starting again was therefore very difficult and dependent on a gift from her mother of R200. Operation of such enterprises in a situation of limited alternative employment is typically characterised by periodical fluctuations between survival enterprises and enterprises stopping.

A similar picture was observed in the sixteen enterprises that ceased trading during the research period. While eight enterprise owners (50%) stated that they had a household member in full time employment three of these gained waged employment during the research period and as a direct result stopped their enterprise. Therefore if these three are ignored then five of the remaining survival enterprises (38%) that stopped had full time employment in the household. This picture is further supported by examining the role of employment in start up capital. All twelve survival enterprises that stopped during the research period used start up capital from household temporary employment. The key difference from the enterprise perspective is not that the sums involved are smaller, but that capital sourced from full time employment is likely to be part of a more regular flow of income into the household while capital from the household or the owners temporary employment is by its nature variable and typically one-off. This means that the enterprises are more vulnerable to either demands from the household budget or problems within the enterprise, such as a temporary reduction in turnover affecting the business income.

⁷⁶ The survival enterprises involved selling meat, selling second hand clothing and two occasions of selling vegetables.

Three main reasons were given for the failure of the enterprise; the availability of some form of alternative employment (50%), lack of money (56%) and personal problems⁷⁷ (25%). It is interesting to note that personal reasons explained why the three non-survival enterprises stopped⁷⁸, but that it was alternative employment or lack of money that accounted for all the survival enterprises that ceased operating.

Employment or the opportunity of employment would appear to provide the motive for eight (66%) of the survival enterprises to stop and enter waged employment. This reflects the literature's view of such marginal occupations acting as a reserve army of labour, which in times of economic upturn or higher labour demand is available for employment, but which otherwise operates temporary micro-enterprises. However it is important to note that in only three cases was employment full time and therefore in the other five cases where employment was temporary or as a domestic it is likely that the owners may have to resort to re-starting the enterprise if their waged employment position deteriorates.

The other reason that was given was lack of money. While this is in a sense the outcome of any failure of a business to work, it does provide a useful clue as to why the remaining four survival enterprises stopped trading. A review of the semi-structured interviews and questionnaires reveals that in three of these cases there was no form of employment in the household and therefore the household was totally dependent on the enterprise for its expenses⁷⁹. Given the limited turnover of such enterprises and the demands on the household budget it is therefore not surprising that such businesses fail.

Six (50%) of the survival enterprises were hoping to re-start, but were waiting for household income to be sufficient in order to raise enough capital to start the business. As a result survival enterprises which would appear to be more likely to stop due to the offer of waged employment or the lack of waged employment in the household at present are dependent on such employment opportunities for the re-start of their enterprise.

Dependence, or more accurately marginalisation, of such owners is therefore at two levels.

- Firstly, those who are excluded from full time formal employment through the structural failures of the economy are more likely to be marginalised within the informal economy by their more limited ability to accumulate capital. Households with regular and/or well paid full time employment are therefore more likely to operate enterprises that are accumulating and as a result grow into capitalist enterprises. Growth into capitalist enterprises or PCP enterprises for those households without such opportunities is more difficult and for many an impossible dream. As Cynthia (interview 85) states at the beginning of this chapter 'You cannot run the business and not work' since without waged employment the enterprise is continually in a state of decline or facing inability to grow.

⁷⁷ Four enterprises had such problems ranging from one woman breaking her legs in a car crash (interview 38) to the owner who had to use all his savings and working capital to provide bail for his cousin (interview 58). In the second case the money was given on the understanding that it would be repaid, but sadly the cousin refused to repay the money and so the owner was forced to close the business.

⁷⁸ The remaining PCP enterprise stopped due to the owner having the offer of full time employment in Durban.

⁷⁹ It is unclear why interview 44 failed since there was both full time and temporary employment in the household although the household size was eight and the owner indicated problems with meeting school fees and other expenses.

- Secondly, for those in such a situation their marginalisation is made worse by the continual fluctuations in stock levels and stop-start nature of the enterprise, which in itself is often dependent upon employment in the formal sector to provide the capital to re-start the enterprise

7.2.3 Employment and the maintenance of PCP enterprises

For those owners of PCP enterprises with full time employment that remained the problem appeared to be one of low pay⁸⁰ and high household expenses, which limited their ability to accumulate capital and to grow. PCP enterprises in such a situation are therefore characterised by a continual struggle to be maintained. Those that remained unchanged were able to replenish their stocks continually. In good months when additional money was earned within the household stock levels would increase while in bad months stock levels would be diminished and may even disappear.

In addition PCP enterprises that remained unchanged during the period were characterised by the full time waged employment of household members rather than the owner of the enterprise. Typically income from household employment was not directly channelled into the enterprise, but rather indirectly through the meeting of household expenditure needs and therefore avoiding the need to run down enterprise finance. It would therefore seem that the contribution of such employment is less than when the owner is employed and therefore the impact on enterprise finances is less.

Elizabeth who operated a PCP enterprise throughout the research period (interview 73) is typical of this situation. During the research period stock levels of the business⁸¹ changed from R100, to R200, to R59, to R70, to R163 to R107 to R150, while there was no investment in fixed assets throughout the period. These changes and the inability of the enterprise to increase its asset base reflect the interplay of household expenditure and household income. Her husband in this case had a full time job, but it was low paid and there was no money left over after paying for normal household expenditure. Therefore when extra-ordinary expenditure like school fees and medical expenses occurred⁸² Elizabeth would have to take money from the business to pay for such expenses. Stock would therefore be reduced or as in January 1994 the business would close until her husband was able to give her enough money to enable her to restart it.

7.3 Household employment and expenditure

The above discussion identifies that household income cannot be separated from that of household expenditure. It is the interplay of these two forces that determines the net contribution of household employment to micro-enterprises. While it was impossible to do a detailed study of

⁸⁰ Low pay was a rather difficult concept to quantify; firstly the researcher questioned the accuracy of existing data and secondly any investigation would raise difficulties and suspicions. The researcher was therefore left to assess the type of waged employment based on the opinion of the interviewee as to whether it was well paid or not and a judgement based on the living conditions of the household. Neither of these was very satisfactory, but it provided an indication which was the aim of this particular part of the research

⁸¹ Elizabeth ran a spaza shop from a small room by her house.

⁸² The household had four children including an epileptic.

expenditure patterns four key areas of expenditure were identified in the semi-structured interviews and survey as playing a role in this process.

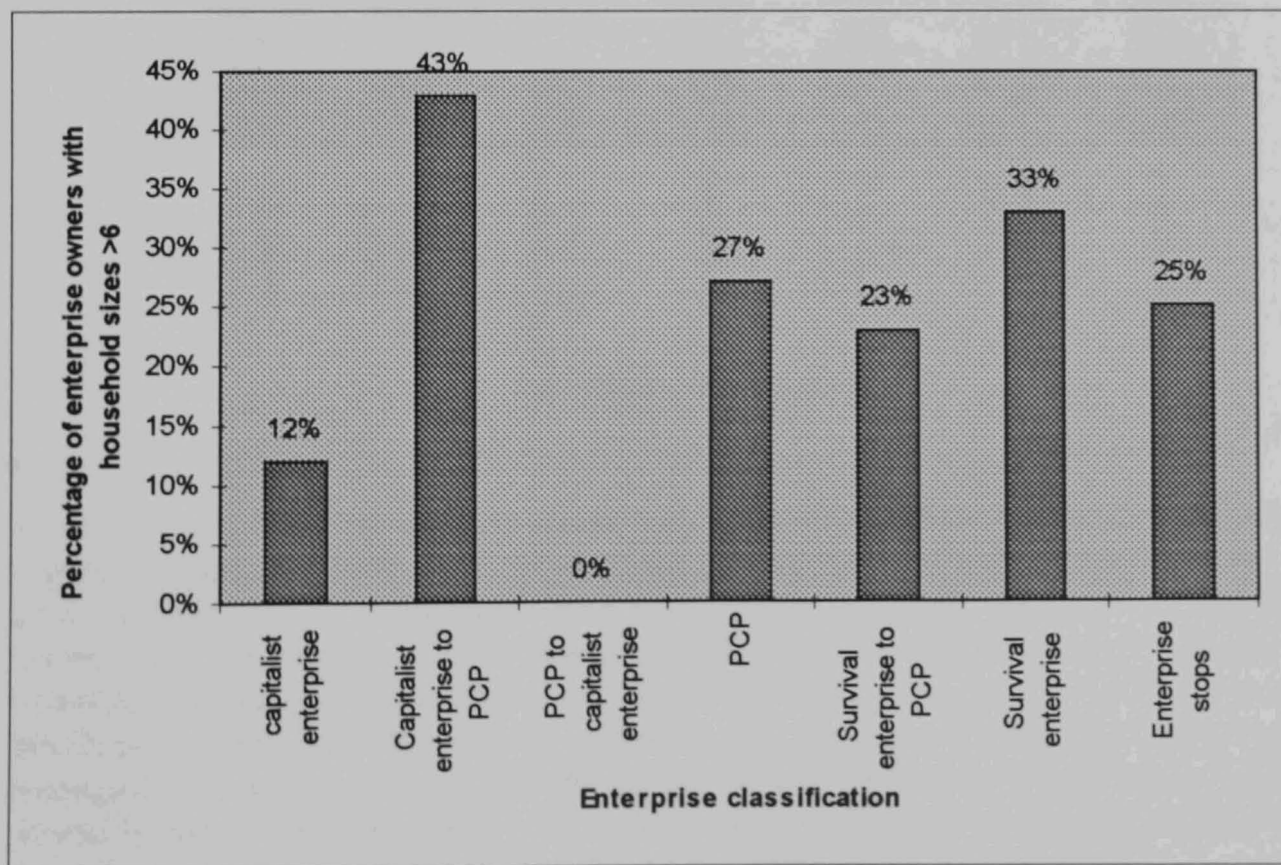
7.3.1 Household size

It would be expected that household expenditure would be very much a function of household size and this was supported by discussions during the semi-structured interviews. However an examination of the mean household size (Appendix 3) is inconclusive about any relationship with the growth and decline in micro-enterprises, although in examining households with more than six people there is some evidence of a relationship (Figure 7.1).

It would appear that capitalist enterprises that decline to PCP enterprises and survival enterprises that remain unchanged have a slightly higher percentage of households with more than six people. It is therefore possible that larger households and the resulting higher household expenses may reduce the capacity of enterprises to accumulate capital.

However while observation and logic suggests a more significant role for household size the inconclusive evidence of the data on mean household size would indicate that household size acts as a contributory factor in the process rather than a major factor.

Figure 7.1 Comparison of micro-enterprise classifications with household size

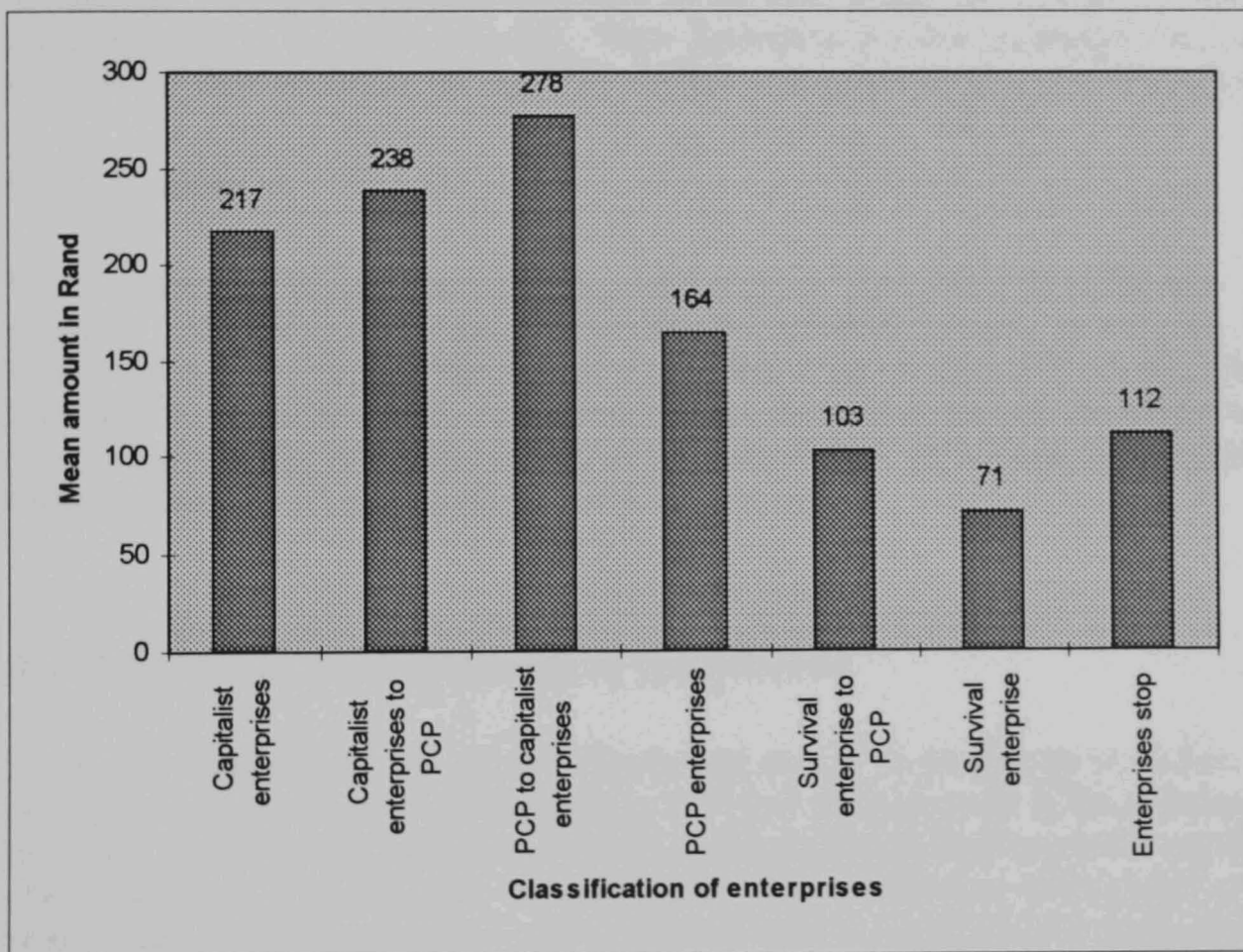


7.3.2 Remittances to rural areas

A characteristic of apartheid has been the migrant nature of much black employment (Wilson and Ramphela 1989, Stadler 1987). This is still a practice today and in Cato Crest this is reflected in the fact that almost half of the children of households living there are resident in rural KwaZulu

Natal. This results in what would appear to be an interesting pattern of expenditure. The sending of children to rural areas was stated by people to be an expenditure reducing measure (see Chapter 9). This is also reflected in the higher mean numbers of rural children in households engaged in capitalist enterprises (2.1) and PCP enterprises (1.4), compared to survival enterprises (1.1). Therefore while remittances to rural areas were consequently higher for capitalist enterprises and PCP enterprises (Figure 7.2), they also reflected an implicit cost saving due to the lower cost of living in the rural areas compared to an urban area like Cato Crest.

Figure 7.2 Comparison of mean monthly remittances to rural areas with classifications of micro-enterprises



Remittances for the children would appear to be dependent on the ability of the household to pay. Capitalist enterprises and those experiencing growth into capitalist enterprises had both in absolute terms and on a per child basis higher remittance levels than any other group in the survey. The implication of this is that households with more children in the rural areas are less vulnerable to changes in planned and unplanned household expenditure since they can adjust the remittances rather than the business stocks in such situations. Cash flows can therefore be managed more easily, because remittances can be sent to the rural areas when there is cash available; this can be compared to the situation where children are staying with their families in Cato Crest and where weekly expenses for these children cannot be postponed.

7.3.3 Schooling

As mentioned earlier schooling is one of the main expenses of the household after food and comprises; school fees, uniforms and travel. The problem for many enterprises is that the first two of these expenditures occur simultaneously just after Christmas, in itself an expensive time.

This problem is compounded by the general reduction in business activity and increase in customer credit in the months following Christmas as all households in Cato Crest adjust to the additional financial demands of that period. Travel, the third school expense, is a recurrent cost for households and varied between R15 and R25 per week for the household throughout the year.

In fact for many of the owners of survival enterprise schooling was the reason for running such an enterprise. The owner would aim to generate enough profit to pay for school travel each week and save money towards the school fees and uniform at the beginning of the new year. Such enterprises are purely survival and the aim is to supplement other sources of household income and to deal with specific household expenses. Growth is therefore impossible and marginalisation almost complete. Therefore while such enterprises are vital for the household in enabling children to continue with their schooling they need to be seen within the context of their absolute marginalisation to the wider economy. Their function is therefore to provide finances for the education of their children in the hope they can find employment in the capitalist economy.

7.3.4 Gender

Eleven of the survival businesses that stopped during the research period (92%) were owned by women⁸³. It appears that a major reason for this is that the women, as the main household carers, are more likely than men to take money out of the business to meet short falls in the household budget (IDS 1982). In contrast the men involved in survival enterprises are mainly either single (36%), pensioners (18%), or have no children (27%) and therefore have fewer financial commitments and therefore are less likely to stop.

7.4 The role of bank accounts in the process

Chapter 8 deals with the role of own finance and savings in the growth or decline of micro-enterprises but it is important to highlight here the role of employment in the utilisation of bank accounts. Of the seventy nine enterprises that operate individual bank accounts forty six of them (58%) do so as a direct result of having some form of full time employment or domestic employment. The reason for this is that virtually all full time employment is remunerated through the formal banking system.

7.5 Employment, gender and the decline into survival enterprises

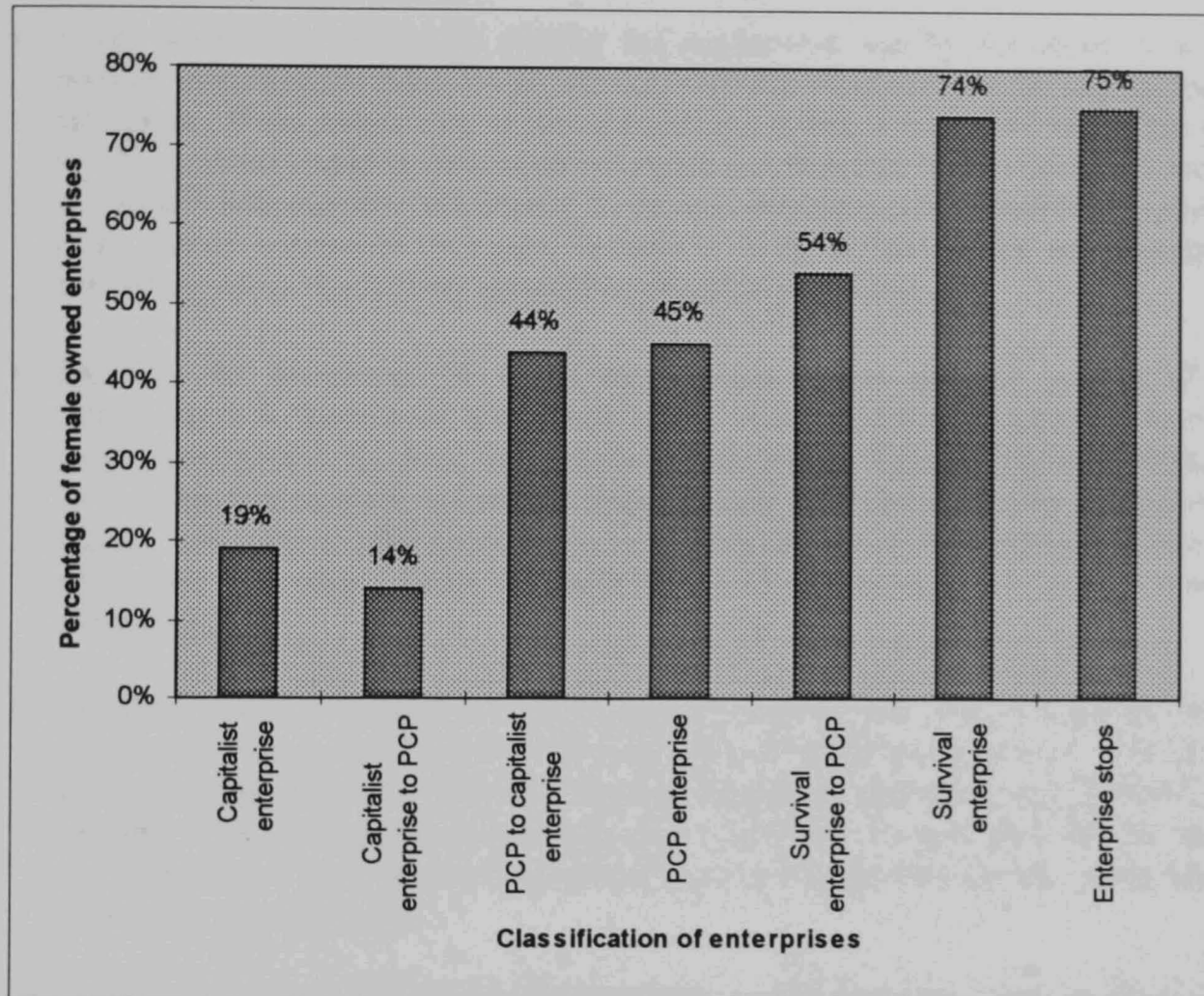
Chapter 6 indicated that gender played a role in the distinction between finance from household members and from husbands. This section will examine in more detail the relationship between gender and the decline of enterprises.

The literature has often identified that within the informal sector women are more typically active in enterprises that have low profits (Arizpe 1977, Beavon and Rogerson 1986, Krige 1988, Friedman and Hambridge 1991). The findings of this research support such a view. While

⁸³ One was recorded in the survey as being owned by the boyfriend, but in the semi-structured interviews was clearly stated to be owned by the woman

seventy five owners (54%) are women there are significant differences in the percentage of owners under each classification (Figure 7.3).

Figure 7.3 Comparison of female owned enterprises with the growth and decline of micro-enterprises



Women are typically employed in lower paid work such as domestic work (Preston-Whyte 1991) and as well as having less opportunity to work due to the discrimination on the labour market (Wilson and Ramphele 1989) and the additional household and child caring duties (IDS Bulletin 1981) that typically they and not men have to perform. Therefore in terms of both access to employment and additional income from any such waged employment women would appear to be at a disadvantage in comparison to men. The result is that women in a situation of scarce finance have less opportunity to use employment as a source for enterprise finance, therefore leaving many female owned enterprises with very limited finance. This contributes towards such enterprises declining and in some cases stopping.

7.6 Conclusion

Past and present access to employment by the owner of the micro-enterprise or through household members is associated with the growth of PCP enterprises into capitalist enterprises. The cumulative affect of this should be that such full time employment should result in the dissolution

of petty commodity production. However as Chapter 5 has demonstrated while there was a slight increase in the aggregate numbers of capitalist enterprises the number of PCP enterprises was not only maintained but increased.

Part of this can be explained by the role of other financial needs and options (Chapters 8 to 10), but it also reflects the varied impact that waged employment has on different micro-enterprises.

- A key determining factor was whether the employment was by the owner or a household member as to whether it lead to growth into capitalist enterprises or the maintenance of PCP enterprise. If the owner was in formal employment then it was more likely that the wages would be directly used to finance the enterprise and therefore lead to increased accumulation and growth into capitalist enterprises. In contrast employment by household members with its more limited impact on enterprise finances is likely to lead to the maintenance of PCP enterprises rather than to their growth into capitalist enterprises.
- Secondly the importance of waged employment implies that the growth of capitalist enterprises is a function of the growth in the wider capitalist economy. Therefore since employment growth has been fairly limited in the last two decades (Rudman 1988) and only 36% of the economically active population of Cato Crest is in full time waged employment implies that there is little potential for significant growth of PCP enterprises into capitalist enterprises and may explain the maintenance of the conservation process over that of dissolution.
- Thirdly the need to balance waged employment income with that of household expenditure suggests that the conservation of petty commodity production could explain why the potential for waged employment to contribute to micro-enterprise finances is more limited than at first appears. This research was limited in its study of household expenditure, but the observations and comments of interviewees indicate that it plays a major role in limiting the accumulation of capital in the enterprise.

However despite this full time waged employment would appear to play an important role in enterprise development and a role which in some senses is contradictory to much of the literature on micro-enterprise and informal sector development (ILO 1972). There is an implicit assumption that the informal sector is the reserve of the marginalised and those excluded from formal capitalist sector employment, who are as a result are pushed into the informal sector. There are two reasons for this apparent contradiction with the literature.

- Firstly the analysis adopted in this research enables a separation of micro-enterprises into three classifications. From this it would appear that those households with limited formal employment opportunities, in other words the most marginalised, are also the most likely to be marginalised within the micro-enterprise sector. Women it would appear are particularly affected since they are not only discriminated in the labour market on the basis of their colour⁸⁴ and their gender, but are also as a consequence involved in the most marginal and survival micro-enterprises in the informal economy.
- Secondly the use of household rather than individual data is important as micro-enterprise profits may be only one of a number of sources of finance for a micro-enterprise including full

⁸⁴ Although apartheid legislation has been dismantled, prejudice as well as disadvantages in terms of skills and education still result in black Africans being at a disadvantage within the labour market.

time and temporary employment. The use of the household as a measure enables the linking of these various financial sources to household expenditure and the factors that determine the size of the household budget. This chapter has identified the roles of household size, rural remittances, school expenses and gender in determining the impact on household budgets and their potential effect on micro-enterprise finances. The complexity of such finance and the number of variables involved make it difficult to conclude their exact roles, but it would appear that all four areas have a significant impact either directly or indirectly on micro-enterprise finance.

In conclusion micro-enterprise growth particularly into capitalist enterprises cannot be separated from that of formal capitalist employment. Enterprise owners seeking to grow within the context of a scarcity of finance are dependent upon formal capitalist sector employment to achieve such growth. The affect of this is that growth would appear to be a function of the engagement of such enterprise owners in the wider capitalist economy through full time waged employment.

8. Own finance and its role in the process of conservation and dissolution

'Money comes and money goes'

(Interview with Themba (interview 15) in Cato Crest)

'My aim in saving is to see my business growing into a supermarket'

(Interview with Beauty (interview 50) in Cato Crest)

8.1 Introduction

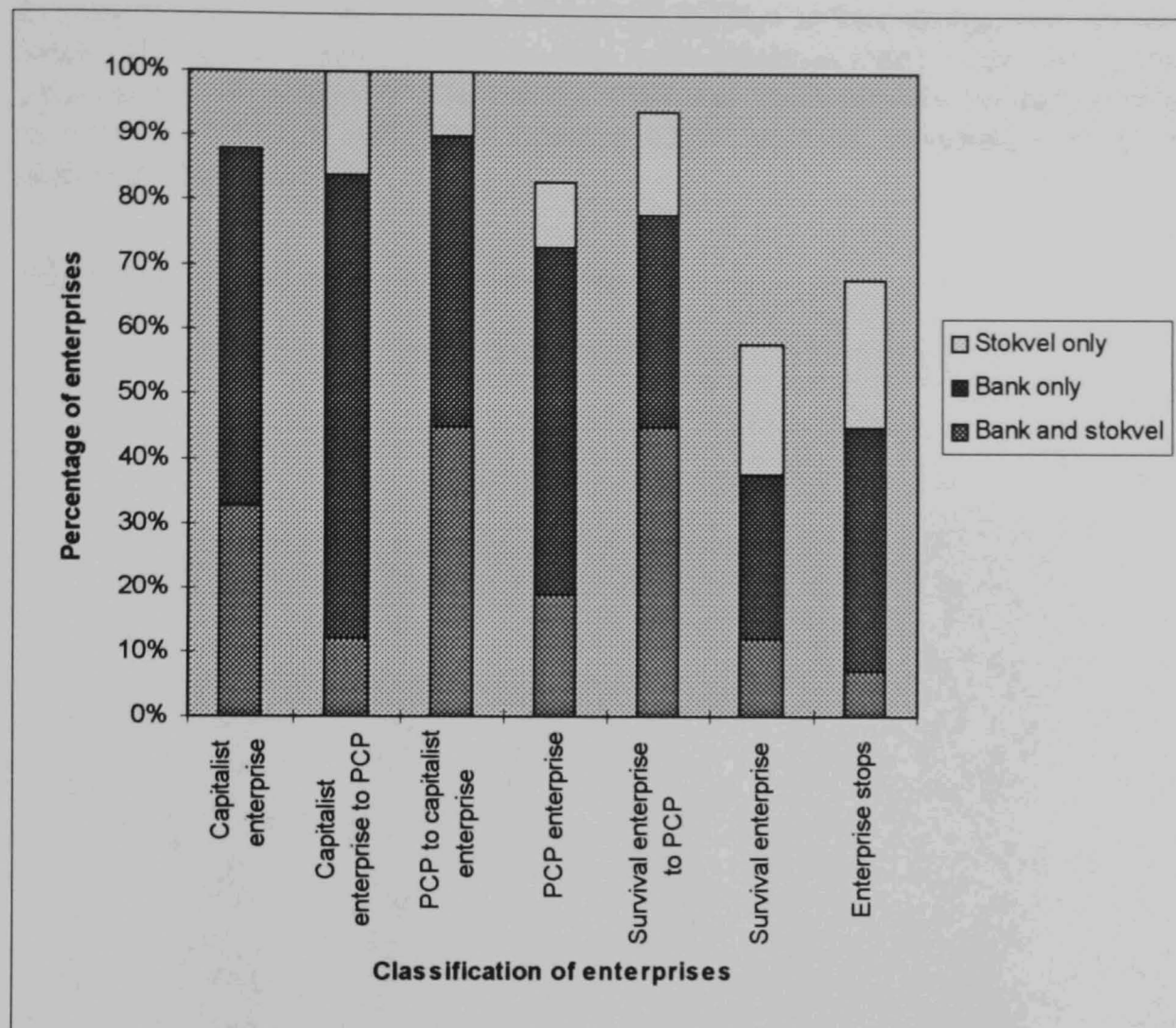
'Own finance' is used in this chapter to describe how micro-enterprise owners manage their own savings. It refers to three aspects; stokvels, bank accounts and re-investment of profits. The first two of these are predominantly used as savings institutions by micro-enterprise owners. While the sources of the savings are varied and include present and past forms of formal employment and self employment this chapter examines the role of savings institutions in the growth of micro-enterprises. It argues that such institutions facilitate the accumulation of enterprise finance and thereby are associated with the growth in micro-enterprises. Ninety nine micro-enterprise owners (80%) in the sample⁸⁵ used one or both of these institutions and as Figure 8.1 illustrates significantly fewer of the survival enterprises and enterprises that stopped used either bank accounts or a stokvel for saving.

This is further supported by an examination of the twenty five micro-enterprises that used neither a bank account nor a stokvel which reveals that eighteen (72%) were either survival enterprises or ceased operation during the research period. The implication of this is that such institutions are associated with the growth. This chapter explores these findings in more detail.

The final sections of this chapter examine the re-investment of enterprise profits. These provide an alternative to saving with institutions and are a much more direct form of investment in the enterprise and therefore of critical importance in the growth of micro-enterprise.

⁸⁵ N=125

Figure 8.1 Micro-enterprise owners with bank accounts and/or belonging to stokvels



8.2 The role of stokvels

During the survey 49 enterprise owners (36%) revealed they were members of a stokvel. This suggests that stokvels play a part in the household's saving strategy. The amount saved averaged R117 per person per month and totalled over R64,000⁸⁶ in annual savings. The total sums saved are also significant when compared to other types of investment made by the sample of micro-enterprises. For example, annual stokvel savings exceeded both total start up capital (R49,000⁸⁷) and total expenditure on business premises (R40,000⁸⁸).

Membership of a stokvel would therefore appear to offer a micro-enterprise owner with surplus household income or micro-enterprise profits a means of saving for later investment in his enterprise.

⁸⁶ n=46

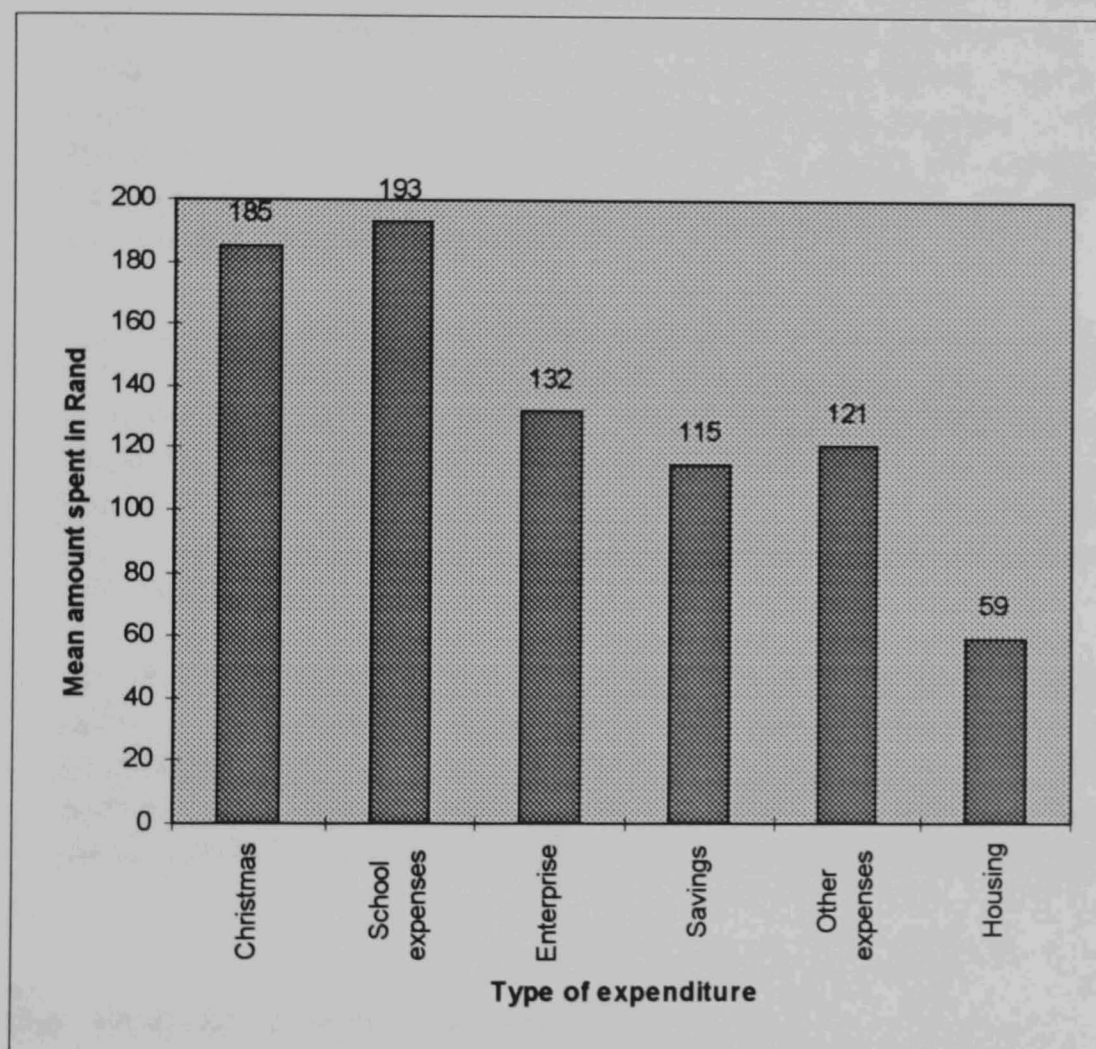
⁸⁷ n=134

⁸⁸ n=53

8.3 Stokvels as savings institutions

In order to understand the operation of stokvels and how stokvel savings were disbursed in more detail 30⁸⁹ of the enterprise owners who belonged to a stokvel were interviewed using a questionnaire (Appendix 2). On average R805 was saved annually by each member and was used for the following purposes; Christmas, school expenses, enterprise, housing, savings and other uses (Figure 8.2).

Figure 8.2 Planned usage of stokvel savings⁹⁰



Note: N=30

The survey revealed that while the level of stokvel savings indicates they could potentially act as a major source of micro-enterprise finance the actual planned usage of such finance was much more limited. Direct investment in the enterprise accounted for only 16% of the planned annual savings. However since only ten (33%) owners planned to use their stokvel savings for this purpose the mean amount available for investment in these ten enterprises was actually R400. This equals the mean start up figure for the micro-enterprises surveyed and suggests that in these cases stokvels could provide a major source of capital.

⁸⁹ Thirty three stokvels were recorded to which 30 micro-enterprise owners belonged. In two cases owners were members of two and three stokvels respectively.

⁹⁰ One of the interviews is excluded from this table due to distortions in the data. The owner saved R8,280 through three stokvels which works out at 23% of the total savings of the 33 stokvels.

However even if the majority of stokvel savings are not directly spent on micro-enterprises this does not mean that alternative uses do not influence micro-enterprise finance. The majority of stokvel savings are for short term needs and this would therefore appear to be a short rather than long term savings mechanism. Enterprise owners can therefore save throughout the year in order to provide for planned and unplanned expenditure within the household in the next year and therefore given the issue of fungibility avoid reductions in enterprise finance. Two mechanisms are at work in this process.

- Firstly stokvel savings involve the monthly commitment by members to save a fixed amount that is deposited in a group membership account at a bank. The money is saved throughout the year until December when the group account is closed and the money is withdrawn and divided amongst the members depending upon their contribution. Most of this money is then used to cover the costs of Christmas (23%), schooling (24%) and other expenses (15%) which are mainly instalments on previous consumer credit such as clothes and furniture. It is therefore the case that only 21% of savings are available for more long term needs and this is further diminished when it was identified that only 10⁹¹ (33%) of the owners used the stokvel to save long term.

The key point with regard to the micro-enterprise is that access to savings particularly in the New Year is critical to avoid the necessity of running down enterprise stock and cash in order to meet the demands of the household budget. Stokvels are important in this by providing an alternative source of cash for micro-enterprise owners at a time when household budgets are stretched. This is reflected in the observation that enterprise owners who stopped had a lower membership of stokvels (25%)⁹² which suggests that the lack of such a facility is associated with their decline.

- The second mechanism is that stokvels provide a source of credit throughout the year to their members. A number of variations on this were identified in the survey reflecting the adaptability of stokvels to meet the individual needs of its members. Thirteen stokvels (40%) operated some form of credit facility and these can be divided into two main groups; intragroup lending and those that provide an on-lending service to non-members (Figure 8.3).

8.4 Stokvels and intragroup credit

The first group are those stokvels that lend exclusively for the use of their members. This was recognised by Cross (1987) who pointed out that the cyclical pay outs of stokvels will often not match the immediate financial needs of members. Intragroup lending therefore occurs when members borrow an amount from the stokvel typically up to their total individual savings to date, to resolve any short term cash flow problems. There is therefore no risk in such lending since the person is in effect borrowing his own money. The result of this facility is that enterprise owners have on a monthly basis access to short term credit from the members' monthly deposits without affecting the total money already saved by the group in the bank. This short term option for household expenses or for stock replacement avoids the damaging effect of resorting to running down the business assets to meet such unexpected expenses. Stokvels therefore provide two

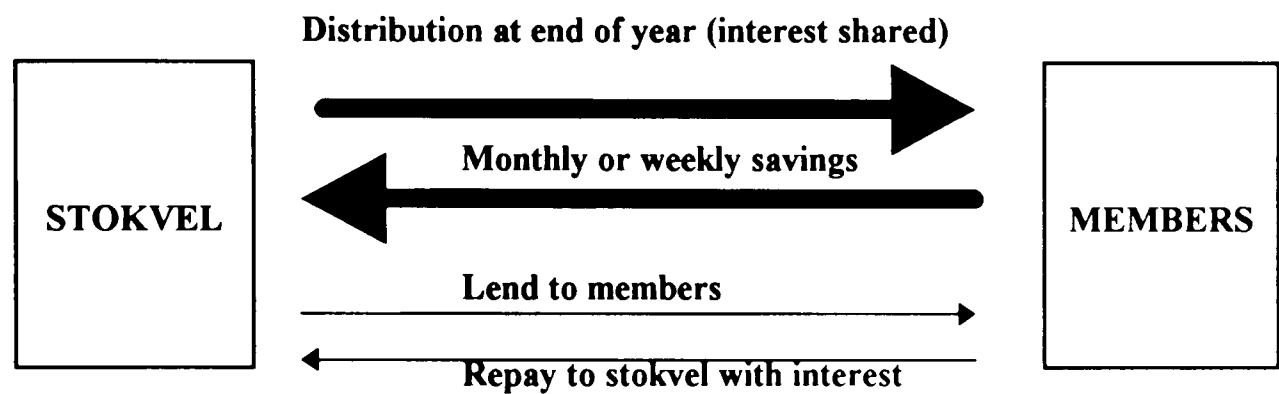
⁹¹ Seven save long term and three save for housing which can be viewed as a longer term investment.

⁹² Only two of the owners of the twelve survival enterprise that stopped were members of stokvels.

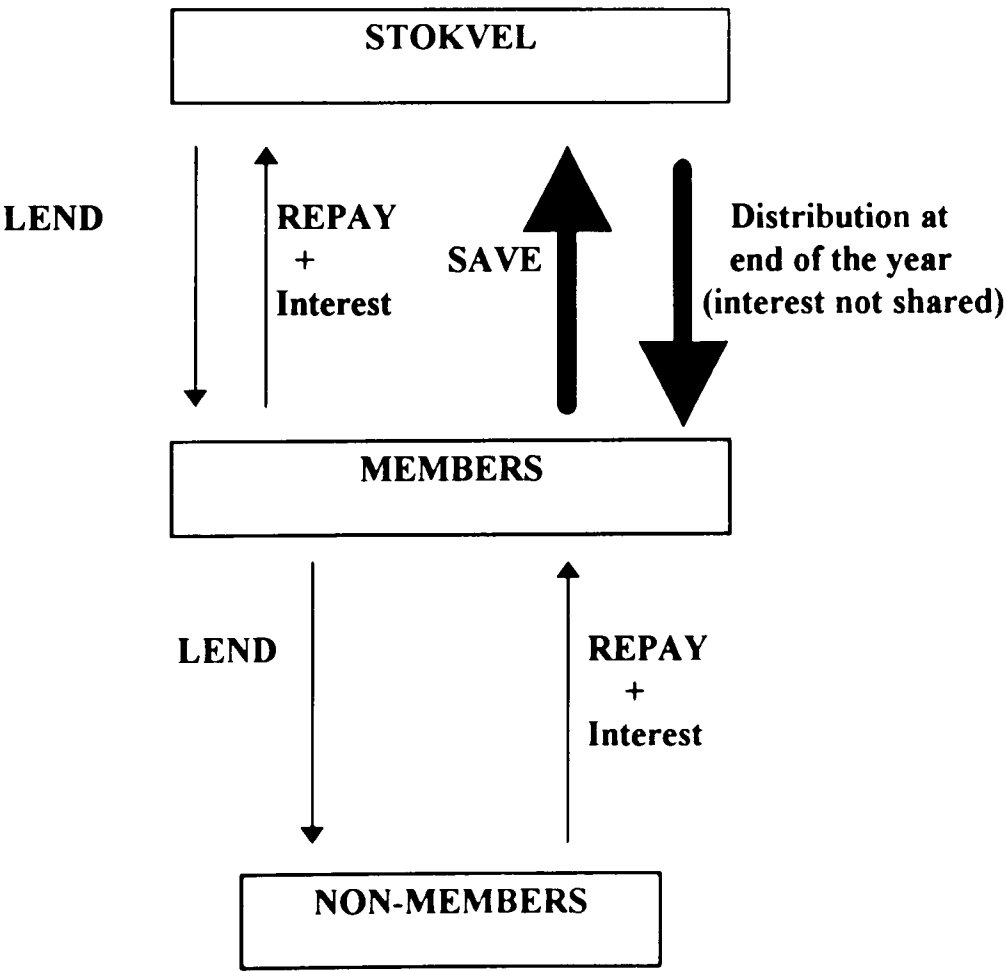
functions for the enterprise owner: a mechanism for disciplined annual savings and access to credit to resolve any temporary cash flow problems in their micro-enterprise or household.

Figure 8.3 Intragroup and non-member credit systems

Intragroup credit



Non-member credit



To discourage everyone from using this facility resulting in the running down of the savings capacity of the stokvel, limits are placed on the ability of members to borrow. Firstly interest of between 20% and 50% per month was charged on all borrowed money⁹³. This interest was typically shared equally amongst the members at the end of the period therefore effectively making the interest charge a real cost to the borrower if they borrow more than other members. Secondly loans were only granted for the first six or nine months and after this all new savings were deposited in the bank in order to gain more interest. Finally the amount available for borrowing each month is limited by the total monthly deposit of all the members and the demand for credit from other members.

Four enterprises were recorded as having used this credit facility directly for business purposes due to cash flow problems. However in all four cases it was only a short term strategy given the cost of such credit. It is worth noting that three of these enterprises remained as PCP enterprises throughout the period and therefore it could be argued that the use of stokvel credit enabled the maintenance of their position rather than their demise.

8.5 Stokvel credit to non-members

Seven of the thirteen stokvels provided credit as an on-lending service to non-members. In these cases the stokvel does not actually lend to non-members, but rather members borrow from the stokvel with the express intention of on-lending to non-members (Figure 8.3). The key point with such credit is that the lending is primarily for economic gain and therefore any interest charged is not shared amongst the group, but is repaid individually to the members at the end of the year to compensate them for the risk and work they have done in lending to non-members. Membership of such stokvels means the potential of additional revenue for the members as well as facilitating saving.

Stokvels providing such a credit facility can be seen as an umbrella organisation for part-time money lenders. Membership of the group protects people from being viewed as moneylenders while at the same time it facilitates the lending process. In a society where money lending has a certain taboo attached to it, but in which there is a need for short term credit, this system provides an innovative alternative credit institution.

Only one case was recorded of an enterprise (interview 52) borrowing from a stokvel member for their business. The cost of borrowing is high and there is therefore little scope for any profit and it is not surprising that this enterprise has remained as a survival enterprise throughout the research period⁹⁴. In the interviews it appeared that credit was primarily given to non members to resolve household difficulties. Hence such credit lending can be viewed as a source of income for micro-enterprises, rather than a source of credit for them to use.

⁹³ The interest was charged as a fixed sum per month (e.g. R20/month for every R100 borrowed). If the borrower wanted the money for longer than a month interest would be expected to be paid to the group each month, with repayment of the principal as a lump sum at the end of the loan period.

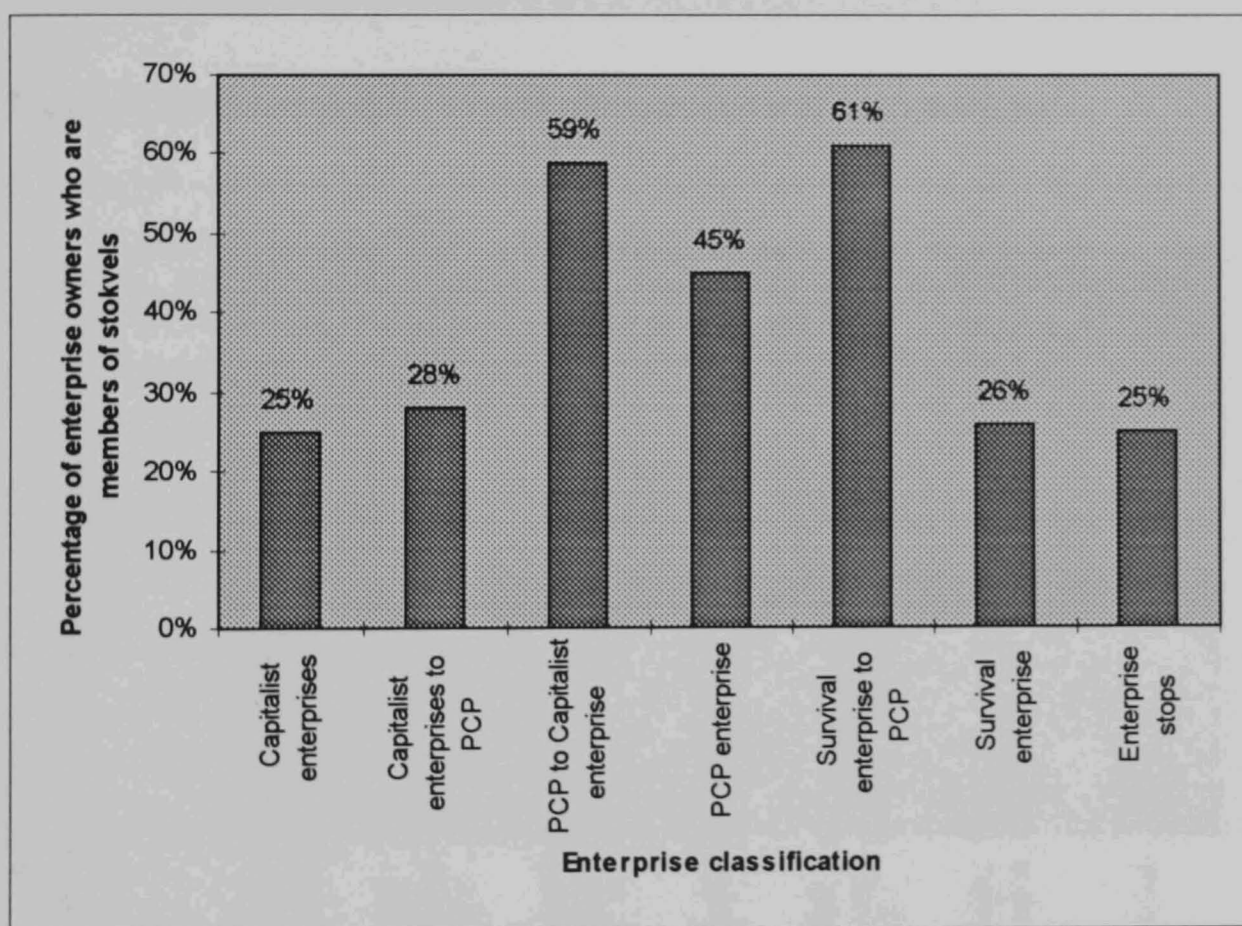
⁹⁴ It is worth noting that this woman appeared to have a limited grasp of running an enterprise and was at one point buying her vegetables at a higher price than she was selling them. It is maybe not surprising therefore that she was willing to borrow R100 at a cost of R25 per month.

8.6 The role of stokvels in the growth and decline of micro-enterprises

Having established that stokvels are a significant source of finance for the household and the micro-enterprise it is now necessary to see how they function in relation to the growth or decline in micro-enterprises.

Figure 8.4 examines membership of stokvels between the different classifications of enterprises. There would appear to be some correlation between stokvel membership and enterprises undergoing growth from survival enterprises to PCP enterprises, those remaining as PCP enterprises and those growing from PCP enterprises into capitalist enterprises.

Figure 8.4 Comparison of enterprise classification with membership of stokvels



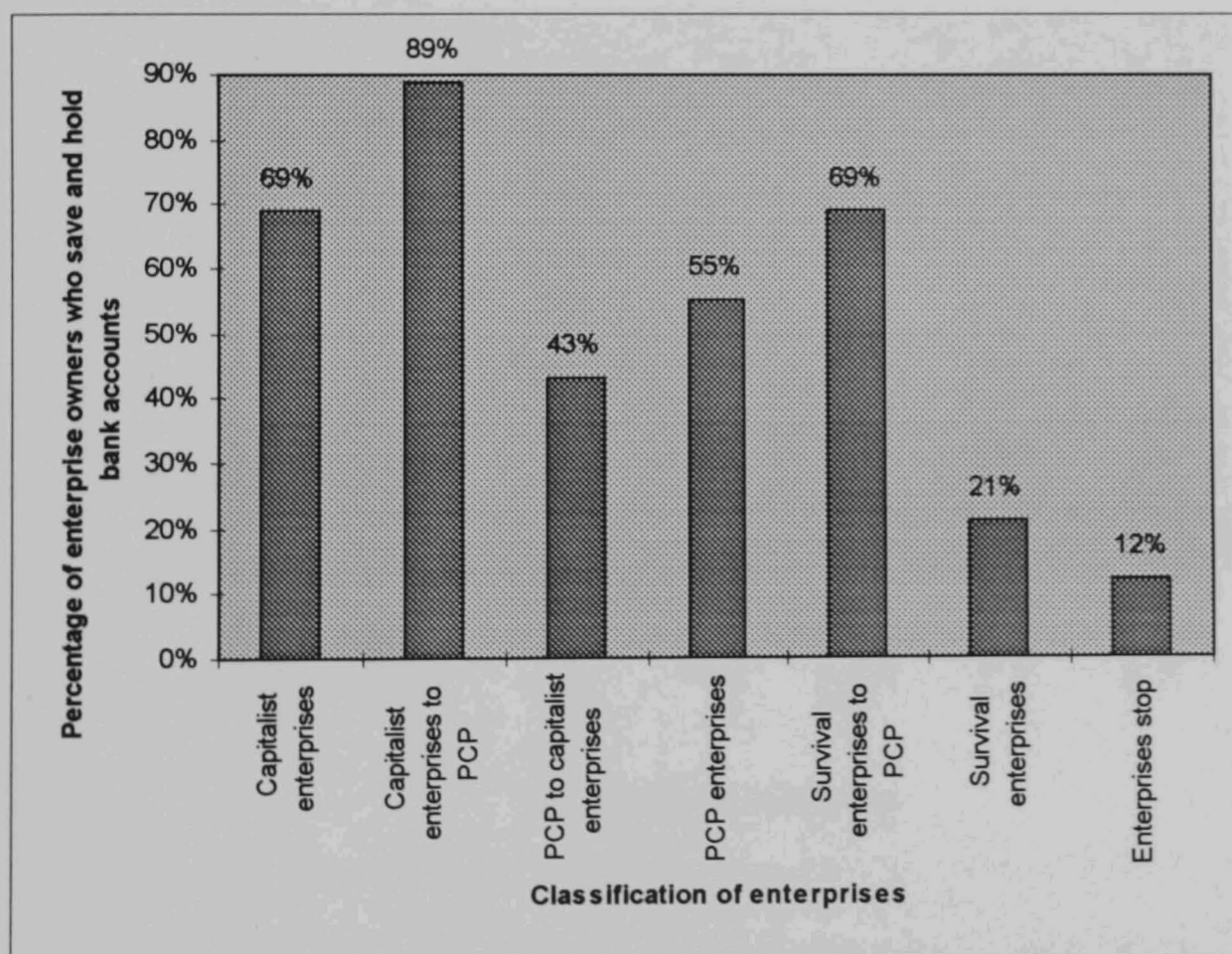
From this diagram it is clear that PCP enterprises, whether growing or being maintained have a higher membership of stokvels than any other classification of enterprise. Part of this can be explained by the nature of PCP enterprises which operate as non-capitalist enterprises; therefore the use of a semi-formal institution such as a stokvel to save reflects this characteristic.

However it is the benefits of stokvel membership which are important for the enterprise owner and influence the process of growth. Stokvel membership enables saving for future investment, the provision of finance for planned annual household expenses and the provision of short term credit to resolve cash flow problems. These benefits enable enterprise owners both to accumulate capital for investment purposes and to maintain their assets in periods when either turnover is low or household budget demands are high. The operation of stokvels facilitates the growth of PCP enterprises into capitalist enterprises and the growth of survival enterprises into PCP enterprises. This thesis argues that the cumulative result of this is that stokvels encourage the conservation of petty commodity production as well as the growth in numbers of capitalist enterprises.

8.7 The role of bank accounts

Eighty two enterprise owners (66%) hold bank accounts which is a similar proportion to the 59% of households in Cato Crest that hold bank accounts (Makhathini and Xaba 1995). In total R62,493 was recorded as being held on current balances, which indicates that like stokvels it is a major source of finance for micro-enterprises. The mean value for such savings is R1202⁹⁵ although a more meaningful figure is the median value of R350. While lower this is still a significant resource when compared to the median start up capital value for these fifty enterprises of only R182⁹⁶. However it is not so much the opening of bank accounts that is critical, but whether they are used for regular saving. The first indication of the importance of bank accounts is provided by examining the relationship between enterprise owners who stated that they saved and those who held bank accounts. Of the eighty one who stated that they save at present sixty (75%) have bank accounts. A closer examination of these sixty reveals that bank account would appear to provide a means for enterprises to accumulate (Figure 8.5).

Figure 8.5 Micro-enterprise owners who save and hold bank accounts



Enterprise owners whose enterprises are accumulating and therefore growing from survival enterprises to PCP enterprises and from PCP enterprises into capitalist enterprises would appear to demonstrate a higher usage of bank accounts than those declining into survival enterprises or enterprises actually stopping.

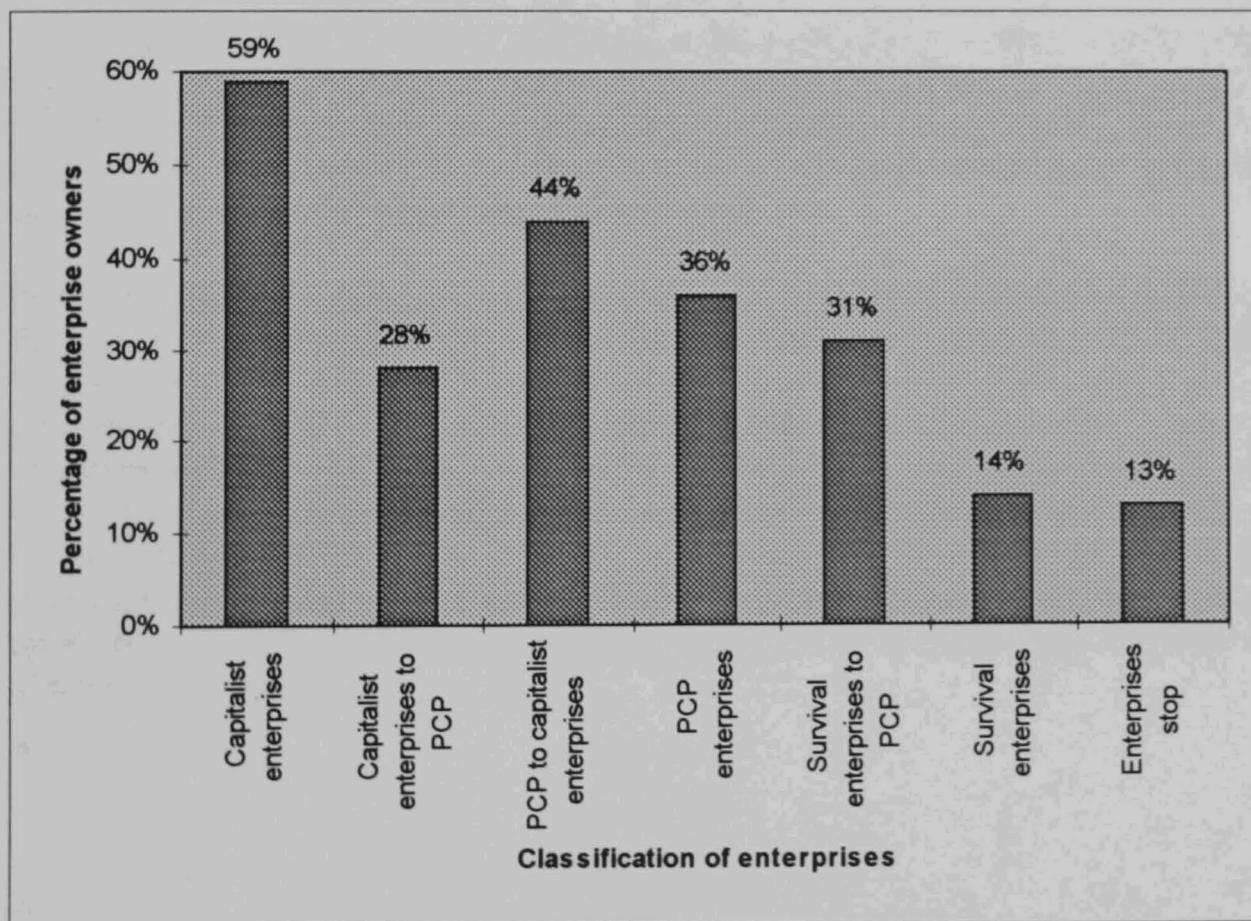
⁹⁵ N=50

⁹⁶ The mean start up value for these enterprises is R487. The mean and median start up value for the whole survey is R367 and R100 respectively (n=134).

It is unclear why there is a high figure for capitalist enterprises declining who hold bank accounts. It is possible that the high proportion of bank accounts is just a reflection of the higher proportion of households engaged in full time employment and who therefore have to have bank accounts to receive their salaries. It is certainly likely that there is some association since thirty nine (47%) of the enterprise owners with bank accounts work or have someone in their household in full time employment. This would also correspond to the relatively high proportion of households with bank accounts.

Figure 8.6 examines forty three enterprises with bank accounts who have no full time employment in the household. It reveals that capitalist enterprise owners and owners of enterprises that are growing have a higher percentage of bank account holders than those enterprise owners whose enterprises are declining or stopping.

Figure 8.6 Comparison of micro-enterprise owners holding bank accounts with no full time employment in the household



From the evidence it would appear likely that bank accounts have the potential to assist enterprise owners in accumulating capital and thereby facilitate the growth of micro-enterprises. However evidence from interviews suggests that bank accounts may actually play a more direct role in enterprise finance than that of stokvels. It would seem that when investments were made whether in premises, equipment or in the start up of a business they were financed from funds saved in the bank account. It was impossible to quantify this but the evidence from the semi-structured interviews indicates that owners preferred to use savings from their bank account to make such investments rather than using their stokvel savings.

In examining how funds were saved it appears that the dependent factor was the scale of the operation. For growing survival enterprises and PCP enterprises that remained unchanged saving in a bank account was typically via various forms of employment, whether full time or part time. However for enterprises experiencing growth into capitalist enterprises savings were made from enterprise profits as well as employment opportunities. The key point is the level of turnover within the enterprise and the potential for accumulation. Those being conserved have typically more limited turnover potential and therefore investments are made by re-investing profits directly in the business through increasing stock levels. In contrast those experiencing growth given their bigger assets and turnover are more able to accumulate capital and save in the bank account for purposes of making some form of investment at a later stage.

The importance of bank accounts and to a lesser extent stokvels is that they enable enterprises to save and then invest in either new or second hand equipment, or at the very least put down a deposit on equipment⁹⁷. From Chapter 5 it is the investment choice which would appear to be one of the main components in the decision to employ workers and therefore grow into capitalist enterprises.

At the other extreme enterprises not using a bank account or stokvel further reduced their capacity to save. This was associated with an inability to respond positively to any financial problems in the enterprise or the household and the resulting marginalisation of such enterprises. It is therefore of no surprise that only six (38%) of the enterprises that stopped had bank accounts and that only two of them stated that they had saved.

The difficulties of accumulation without some form of savings institution are best illustrated by the position of Carlos (interview 147). Carlos is Mozambican living illegally in South Africa. This means that he has no identification documents and therefore cannot open a bank account; also since his position in the area is uncertain he does not trust anyone enough to join a stokvel⁹⁸. This inability to save has been a major constraint to the expansion of his enterprise with all the money that is generated from the business being spent on the household and none saved. Carlos summarises this problem saying 'it is a problem if you keep the money in your pocket you look at it and spend it and then it is finished!' While this is an extreme situation it does illustrate the constraints that enterprise owners are under when they do not hold bank accounts or become members of a stokvel.

⁹⁷ For example the typical deposit on a refrigerator was about R500.

⁹⁸ While the money is kept in a bank there is a degree of trust necessary for it to work. A number of tales were told during the research period of people running off with the savings of other stokvel members.

Illustration 8.1 Two pictures of PCP enterprises



Picture of Goge (above) outside his spaza shop with is wife. Picture of Comfort (below) being interviewed by a research assistance inside his shoe repair business.



8.8 The role of re-invested profits

An alternative form of finance for the business is the re-investment of profits directly back into the business. Since this is a continual and incremental process it is initially limited to current assets. Two main uses can be identified.

The first is new stock. Goge (interview 54) whose PCP enterprise was maintained throughout the research period re-invested up to R600 by increasing his stock from R272 to R860. The importance for any trading business is that not only does this represent a growth in business assets, but increased stock increases the potential for higher turnover. It is interesting to note that in this case having built up stock levels to this sum he choose to repair his roof and expand the spaza shop and at the same time purchase some crates⁹⁹. Reinvesting profits in stock can therefore be seen as a form of short term savings in which stock is used in the short term for the micro-enterprise and then at a later stage exchanged into cash for investments in fixed assets.

The second option is to increase the availability of customer credit. Customer credit requires a significant amount of finance. In the survey micro-enterprises (62%) provided customer credit totalling on average R235 per month and R80 a week. The semi structured interviews revealed based on their balance sheets that survival enterprises and PCP enterprises appeared to have proportionally more credit financed from reinvested profits than capitalist enterprises. Comfort (interview 128) provides an extreme example of this. His shoe repair business extended customer credit to the value of half his total assets all financed from the profits of the business. While such credit does require significant financing it does have the advantage of increasing turnover of stock although it does have the drawback of reducing cash flow, particularly if there are problems with repayment of debts. Problems with late payers were recorded in 60% of the cases where credit was given and in the case of Comfort led to the decline of his micro-enterprise from a capitalist enterprise to a PCP enterprise.

The re-investment of profits in fixed assets which by their nature are more 'lumpy' is more normally done with the assistance of a financial institutions such as a bank or a stokvel that facilitates the savings of sufficient capital to make such investments. However the re-investment of profits does provide a means by which enterprises were able to invest in equipment through the use of a hire purchase facility. This is developed more fully in Chapter 10, but to suffice it to say that once the initial deposit was paid, which was normally from money saved in a bank account or a stokvel, the repayments were made from the profits of the enterprise each month. Micro-enterprises in such cases were observed over time to avoid reductions in current assets, but able to reduce their liabilities through the retention of profits.

Richard (interview 57) purchased a refrigerator in September 1995 and the following three balance sheets (Figure 8.7) illustrate how the reinvestment of profits has helped contribute towards his present position. Having purchased the refrigerator on hire purchase with a R500 deposit he was able to make repayments of R201 a month without any further reduction in stock levels.

⁹⁹ The crates and empty bottles purchased allow the owner to increase the number of crates of drink purchased at any one time. This saves on transport costs as well as opens up the possibilities of better deals on the price of purchased goods.

Figure 8.7 Balance sheets for Richard's spaza shop¹⁰⁰

Date 30/8/94

Assets		Liabilities	
Building	R269	Savings	R619
Shelves	R50	Profit retained	R1,364
Cash	R126		
Stock	R1,538		
Total		Total	R1,983

Date 28/9/94

Assets		Liabilities	
Building	R269	Savings	R619
Shelves	R50	Debt	R4,827
Stock	R1,396	Profit retained (up to 30/8/94)	R1,364
Cash	R62	Profit taken out	(R176)
Customer credit	R30		
Refrigerator	R3,732		
Finance charges	R1,095		
Total		Total	R6,634

Date 31/10/94

Assets		Liabilities	
Building	R269	Savings	R619
Shelves	R50	Debt	R4,626
Stock	R1,890	Profit retained (up until 28/9/94)	R1,188
Cash	R224	New profit retained	R744
Customer credit	R118		
Refrigerator	R3,732		
Finance charges	R894		
Total		Total	R7,177

¹⁰⁰ Hire purchase is recorded as a liability since although legal title does not pass until the payment of the last instalment the risks and rewards of ownership of an asset purchased on hire purchase are substantially transferred to the customer when the agreement is signed. Therefore from an accounting perspective the asset is their own. Therefore the refrigerator and the financial charges are included from the beginning as assets of the business and the amount owed to the retailer as a liability.

8.9 Savings institutions and the subordination of micro-enterprise finance

Having identified the role of stokvels and bank accounts in facilitating the accumulation of capital for both direct and indirect investment in the enterprise it is necessary to examine the role of formal finance in this process. Both use the formal banking system, one directly and the other indirectly through the stokvel group membership bank account. These savings are a significant source of capital for the banking system.

If we look at Cato Crest as a whole then the amounts of savings are considerable. The survey identified 33 stokvels with a total membership resident in Cato Crest of 310 who annually save R268,000¹⁰¹. In addition the 1995 survey (Makhathini and Xaba 1995) found that 60% of the 3,467 households in Cato Crest had a bank account and based on the median annual figure for bank savings of R350 a further R728,000 is saved. Therefore in total at least R288 is saved annually by each household in Cato Crest through the formal banking system, which totals close to one million Rand. Although this figure includes those involved in formal employment and informal employment the people are grouped together since they all belong to a poor community and whether people are employed or not their direct access to finance is equally limited.

However there appeared to be no corresponding inflows of capital from the formal banking sector. Only four cases (2%) were identified where loans were made available to micro-enterprises in Cato Crest. In only one case was this from the banking sector, since the other three were from development agencies who have access to international funding.

However it is important to recognise that while the banking system is assisting micro-enterprises through the provision of savings facilities it is also acting as a channel for resources to be moved from poor communities like Cato Crest to investments in other areas of the economy dominated by formal capital. This does not imply that there is a sinister plot to deliberately transfer resources in this way, but rather it reflects the structure of the economy in which pricing and information markets lead formal financial markets to make rational decisions that lead to such an outcome.

A cause for greater concern is that while these market imperfections and problems of information are typical to all developing country situations there appears to be little done to resolve them. While significant sums of money are being deposited in the banking system the banks still remain geographically distant. In rural areas this is understandable, but in a large city there is no banking facility in easy walking distance and the nearest banks are about 2 km away in the CBD or the white suburbs.

Related to the geographical spacing between the customer and the bank is the distance between agencies geared to developing micro-enterprises and their target population. These have the potential to act as an alternative balancing flow into poorer communities (6.2.3) but in Durban all are based in the CBD and contact with clients is always at a distance with problems of information being multiplied rather than reduced.

¹⁰¹ This figure includes only the 33 stokvels interviewed in the survey. There are likely to be other stokvels that exist in Cato Crest that were outside this survey.

8.10 Conclusion

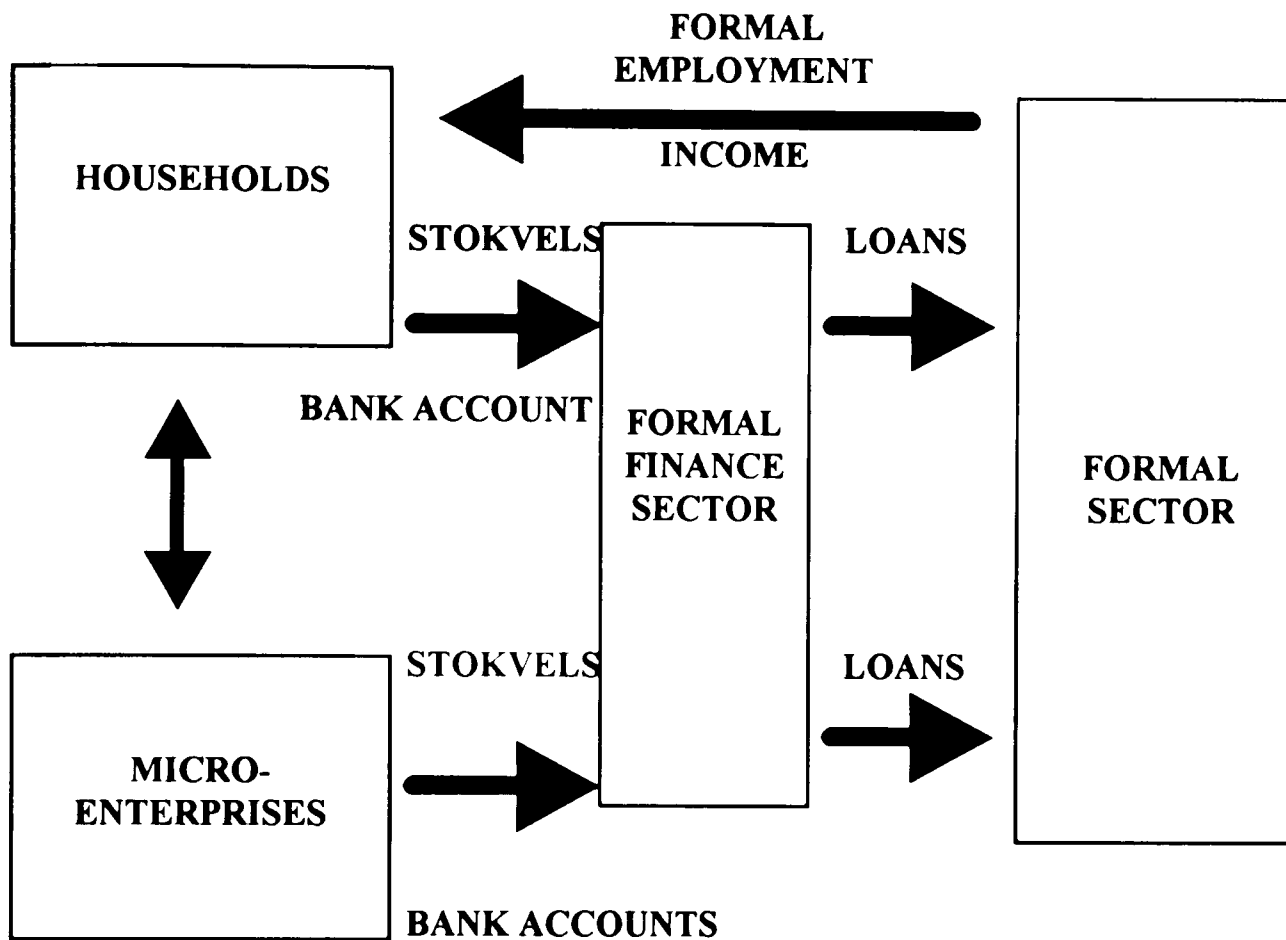
This chapter has identified that bank accounts, stokvels and the reinvestment of profits play an important role in facilitating the growth of micro-enterprises and the conservation of petty commodity production. The three areas have the following roles:

- Stokvels would appear to be associated more with the maintenance of PCP enterprises. While there was some evidence of stokvel savings being used for micro-enterprise finance their main role was in meeting planned and unplanned household expenditure.
- Banking was more associated with the growth of micro-enterprises into capitalist enterprises since it involved more direct savings for micro-enterprise finance than that of stokvel savings.
- The re-investment of profits allowed both for the maintenance of PCP enterprises through the accumulation of capital as well as in some cases the growth into capitalist enterprises

Secondly the evidence of this chapter would appear to support hypothesis four that was developed in Chapter 2 that informal financial institutions are subordinated to the needs of formal finance. While stokvels provide a means for members to save and occasionally access credit their main function in the wider economy is in the provision of resources for the formal financial sector to use to provide finance to the capitalist economy. In contrast as established in Chapter 6 there is very limited access by micro-enterprises to formal finance. In the case of Cato Crest there is therefore a net transfer of funds annually through the operation of stokvels and bank accounts to the formal financial sector of over R1 million¹⁰² which is then lent to the formal sector (Figure 8.8). While this indirectly benefits Cato Crest residents through the possibility of more employment in that sector there is very little direct benefit.

¹⁰² The exchange rate at the time of the research was £1 = R5.5

Figure 8.8 The relationship between savings and the formal sector and the role of financial intermediaries



The role of financial institutions is to act as intermediaries between those that have surplus funds and those who have shortages of finance (Von Pischke 1991). However it would appear that market imperfections whether in information or institutional design result in very limited access for micro-enterprises from Cato Crest to these surplus funds. This is a world wide phenomena since as the literature has identified the banking sector is not designed to deal with the micro-enterprise sector (Levitsky 1986). However what is unusual is the degree to which formal finance has directly through bank accounts and indirectly through the stokvels increased its capture of surplus funds made available by both micro-enterprise owners and the residents of informal settlements. This reflects the well developed and sophisticated financial sector of South Africa, but also highlights the fact that it is primarily geared to serving the formal capitalist sector. The result, as this thesis has argued, is the subordination of informal financial institutions and other savings to formal financial institutions and the formal sector.

9. The role of equity and finance saving measures in the process of conservation and dissolution

'Money is your mother and your father. You have to look after it.'

(Interview with Themba (interview 15) in Cato Crest)

9.1 Introduction

Previous chapters have explored the role of own finance and credit. This chapter considers the two remaining options for meeting financial needs identified previously (2.3.2); to increase the equity of the enterprise by forming some form of partnership and to adopt a variety of finance saving or reducing measures. This chapter examines these two alternatives and their impact on micro-enterprises in Cato Crest.

9.2 Equity and the use of partnerships

Eight micro-enterprises (6%) surveyed adopted some form of partnership. The advantage of such a relationship is that both parties can contribute capital and labour resources and thereby increase the scale of the operation (Wilson 1990). However in studying the eight enterprises it would appear that in all but one case the partnership was formed for survival enterprises and PCP enterprises that did not grow into capitalist enterprises. For example, David and Ernest (interview 148) operated a small carpentry business in Cato Crest making tables and benches for Cato Crest residents from scrap wood from local factories. Both had previously been involved in survival enterprises, selling bones¹⁰³ and beer respectively, in Cato Crest. However neither had the R100 needed to buy the scrap wood to start the business and they therefore formed a partnership, each contributing R50 in cash and their own tools. It would therefore appear that the partnership option is primarily a choice for survival enterprises who have very limited options for finance.

The one exception was Chris (interview 18) who went into partnership with Ngcemu. In this case equity finance enabled the enterprise to become a capitalist enterprise. Although both assisted in the restaurant the serving and cooking was mainly done by staff with the role of the owners primarily to manage the business. Since both had alternative employment it is possible that the partnership will continue since there is less reliance on the enterprise income to meet their households needs and as most of the work is done by the staff there is less potential for arguments about labour tasks.

In all cases the partnership was an informal arrangement. In the long run the strains on such relationships, particularly around financial rewards, the division of labour and work practices lead to the break up of such partnerships. This is reflected in the lower mean age of these eight enterprises (15 months) and the fact that two partnerships actually ceased during the research

¹⁰³ The bones were waste products from butchers and factories supplying fast food outlets.

period. In no case was there any clear system for sharing out labour tasks or for distributing the profits of the enterprise. This was at its most acute where more than two people were involved in the partnership and led to accusations of corruption and cheating, but the problem was characteristic of all the partnerships in Cato Crest. It would therefore appear that while partnerships do provide a solution to scarce finance the informal nature of such relationships means the solution is often only temporary.

It is possible that the dependence by the household on survival and PCP enterprises for income leads to the instability of such partnerships. It is only where owners have alternative employment and the enterprise has grown into a capitalist enterprise (therefore simplifying decisions on any labour tasks and the profit share) that such partnerships can become more stable. The problem is that partnerships in Cato Crest are normally started when there are no other options for finance. Therefore since such people are marginalised within the waged labour market and have insufficient resources for their enterprise to grow into a capitalist enterprise it is likely that such partnerships will remain very unstable and in most cases lead at some point to the enterprise stopping.

One partnership which was outside the survey sample¹⁰⁴ illustrates some of the problems facing partnerships. The cement block yard was set up by five women who, except for one¹⁰⁵, were without waged employment, and therefore dependent upon the enterprise for income for their households. However given the limited finance that each could contribute there was insufficient money to buy either cement in bulk or the sand and gravel necessary for better quality cement blocks. The enterprise was therefore forced to make a poorer quality ash blocks using waste ash¹⁰⁶ that was sold informally by a council truck driver. Being poorer quality than sand and cement blocks these blocks tended to be sold for a lower price without any increase in sales. The reduced profit margin due to the additional cost of the cement and the lower sale price meant that there was very limited benefit for the partnership. This problem was compounded by arguments over profit share and labour tasks. In an attempt to resolve this problem workers were employed on piece rate to make the blocks, but since there was insufficient profit in the blocks even before including the labour cost very little profit remained for the partnership. The final problem was due to the inadequacy of the return on their initial investment in the partnership and limited alternative sources of income some of the women borrowed from the partnership's money to meet household needs. This resulted in the running down of the working capital of the enterprise, an inability to buy new materials and arguments which in the end led to the collapse of the enterprise only six months after it had started.

In this case the group of women was characterised by limited opportunities for waged employment, insufficient capital either to buy materials in bulk or to maintain production throughout the week, and the use of waste products from the formal sector to produce ash blocks for the marginalised within the low cost housing sector. Marginalisation is therefore complete and growth of such micro-enterprises would appear to be unlikely.

¹⁰⁴ The cement-block yard was set up as a partnership during the research period after the initial set of semi-structured interviews and the researcher was involved in providing advice and technical assistance to this group. It was therefore felt that on both the above grounds it should not be included in the survey.

¹⁰⁵ The one exception was a domestic worker in a white household near Cato Crest.

¹⁰⁶ The ash was delivered from incinerators in Durban by a council truck.



Illustration 9.1. Two pictures of survival enterprises. Lady (above) selling meat on her head walking round Cato Crest and a partnership (below) making furniture from scrap material.



9.3 Finance saving measures

This is a term that includes a variety of options for reducing the financial needs of a micro-enterprise. In Cato Crest five main areas were identified for reducing finance; use of own premises, cost savings in the construction of premises, reduction of customer credit, more efficient use of stock and household labour. The term finance saving measure is used here in a very broad sense to describe the actions of the micro-enterprise owner in a situation of scarce finance. In some cases it could be argued that these measures relate to issues of management, however this chapter argues that these options are often the only options open to many micro-enterprises and the use of such options reflect the type of classification and the nature of such micro-enterprises rather than any management skills by the enterprise owner.

9.3.1 Use of own premises

Place of operation of businesses in Cato Crest ranged from the fixed to the mobile and could be classified as follows: separate premises, own house, table and door to door.

Fifty four (39%) micro-enterprise owners constructed some form of separate building for their enterprise. This was sometimes on the same plot as their house, but was built specifically for the enterprise. The mean cost of this was R786¹⁰⁷ and represents a significant cost to micro-enterprises. For example, in the semi-structured interviews enterprise owners using separate premises had buildings costing between 20% and 30% of their total assets.

To avoid this cost one of the other three options was adopted by the other eighty four (61%) micro-enterprise owners. The largest proportion of enterprise owners used their own house from which to trade (41%). This meant that no money was spent on construction since the premises had already been constructed for domestic purposes. This also had the added advantage of providing more security for business assets, although it did limit the market in some cases due to the location of their home.

The other alternatives were to use a table¹⁰⁸ (9%) or to sell door to door (11%). Setting up a stall or a table outside one's house or by the road required minimal capital since the table was built from scrap wood or old wooden pallets that had either been dumped in Cato Crest or collected from town. The alternative was to work door to door selling within Cato Crest and neighbouring districts. In this case only a box or bag was needed to carry the goods to be sold.

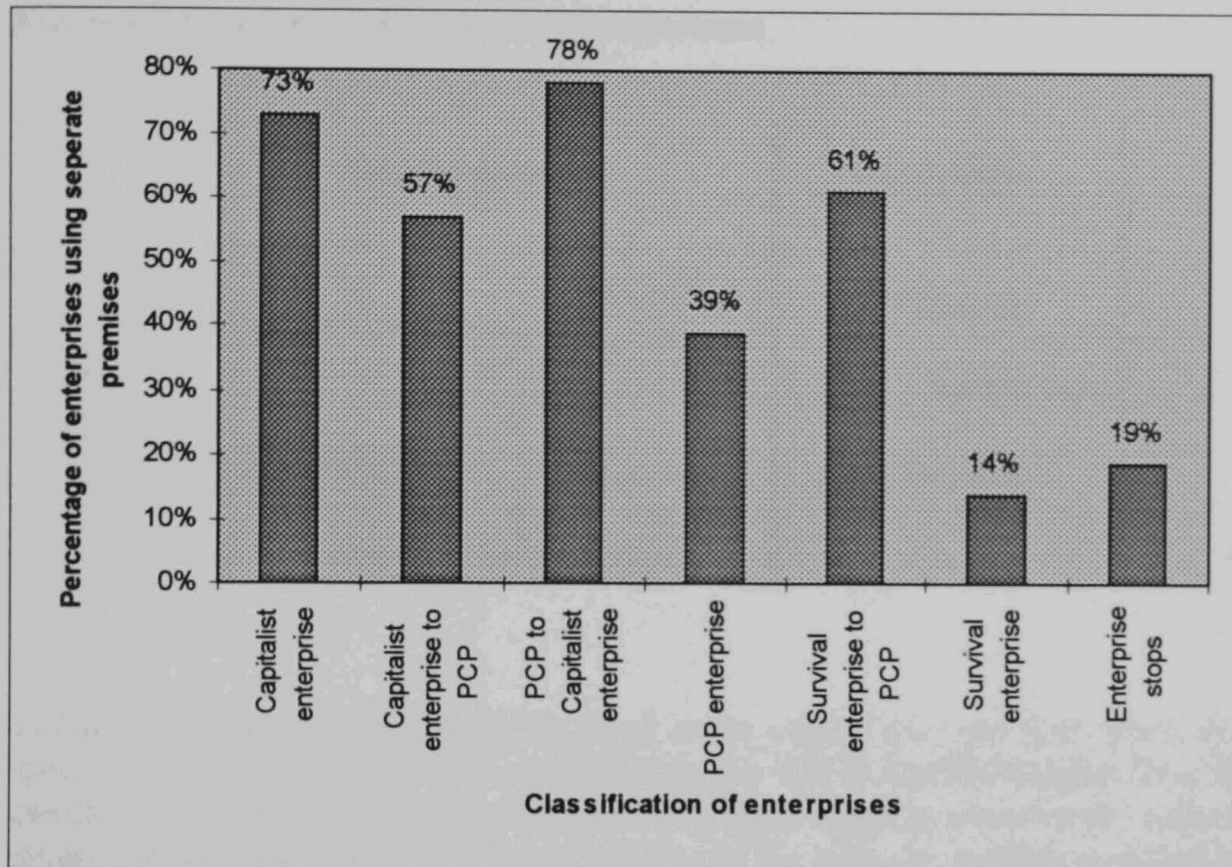
The advantages of both these options were that no expenditure on construction was needed and any disadvantage associated with the location of the owner's household could be eliminated, since place of sale could be changed with demand. It should also be noted that these two options, although considered separately here, were not in practice mutually exclusive and some enterprise owners were observed to use both of these methods through the week. For example a number of women were observed to sell from a bag outside the school in the morning and then from a table outside their house in the afternoon and when the children were in class (interview 86). The disadvantage with these two options is that given the limited passing trade and low purchasing

¹⁰⁷ N=51

¹⁰⁸ Table was the name given to any enterprise that was operated from a table or box. It was characterised by the ease of relocation if desired and limited permanence, but typically trading took place from the same place throughout the day.

power in Cato Crest the possibility for accumulation is small. This would seem to be associated with the observation that of the 27 enterprises that used a table or sold door to door, twenty three remained as survival (17) and PCP (6) enterprises while four ceased to trade.

Figure 9.1. Enterprises using separate premises¹⁰⁹



The use of own premises would appear to be associated with the growth of micro-enterprises (Figure 9.1). While the use of alternative types of business premises would appear to represent a survival strategy amongst declining and survival enterprises in a situation of scarce finance, the disadvantage of using a table or even own premises may be that it actually restricts the ability of micro-enterprises to grow. The constraints to growth, particularly through limits to turnover due to the location of such premises will therefore have the effect of maintaining survival enterprises in such a state.

9.3.2 Cost savings in the construction of premises

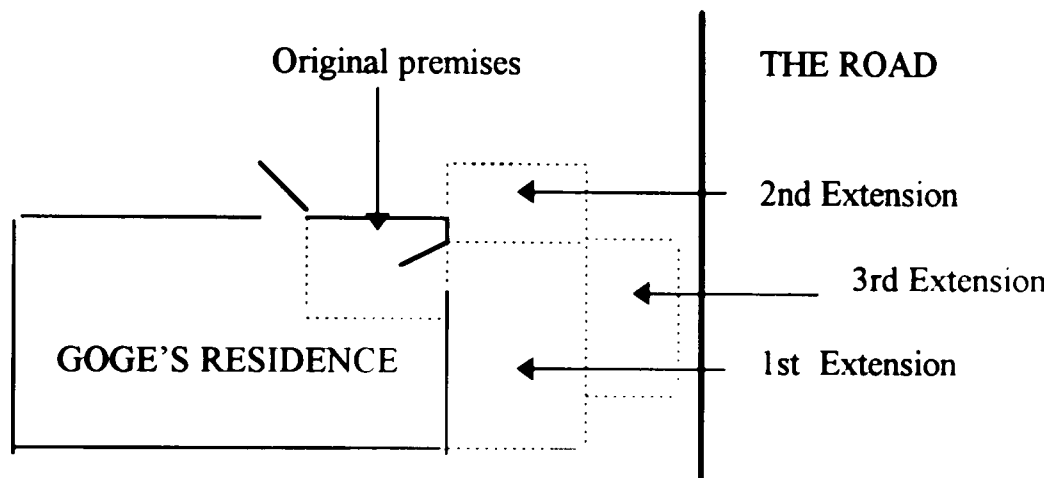
The mean cost of building separate premises was R786 indicating the cost of construction is a major investment for micro-enterprises. However since the median value is R500 it would seem that there are a variety of measures to enable financial savings in the actual construction of such business premises. Four options were identified from the field work.

¹⁰⁹ n=138

9.3.2.1 *Extension to existing premises*

An enterprise owner of typically a survival or PCP enterprise would make an extension to the side of his shack to accommodate the increased scale of the enterprise. Goge (interview 54) provides an example of this type of development (Figure 9.2).

Figure 9.2 Sketch of Goge's spaza shop extensions



In this case Goge used the front of his shack as the original premises from which to operate his spaza. However this soon proved unsatisfactory due both to size and distance from the road. He therefore built a first extension on the front of his house where he relocated the spaza shop. Then during the research period he increased the size of the spaza by building a second extension to enable him to store more crates of drink. A third extension was then built as a shaded area next to the road so that he could increase his custom from passing trade. This approach enabled him to enlarge his premises without running down his stock, since each phase of construction only cost R200 or R300 with all labour provided by Goge and his wife. The roof and walls were constructed first, then the floor was cemented and finally the walls were plastered with cement. Each stage would be spread out over several weeks so that stock would not be run down. Savings on transport costs could also be made since building materials could be bought and transported in small quantities individually using local buses rather than hiring the more expensive vans¹¹⁰.

9.3.2.2 *Use of scrap and second hand material*

It is also important to note that in almost all cases costs were reduced by obtaining scrap materials from either formal industry or from the households where domestic staff worked. Access to such material represented a perquisite of such work, although whether that was reflected in the wages paid was unclear, but this again shows the links between the formal capitalist sector and the informal sector. Materials were generally not collected for any particular purpose, but rather were obtained when ever possible and then stored. A common observation

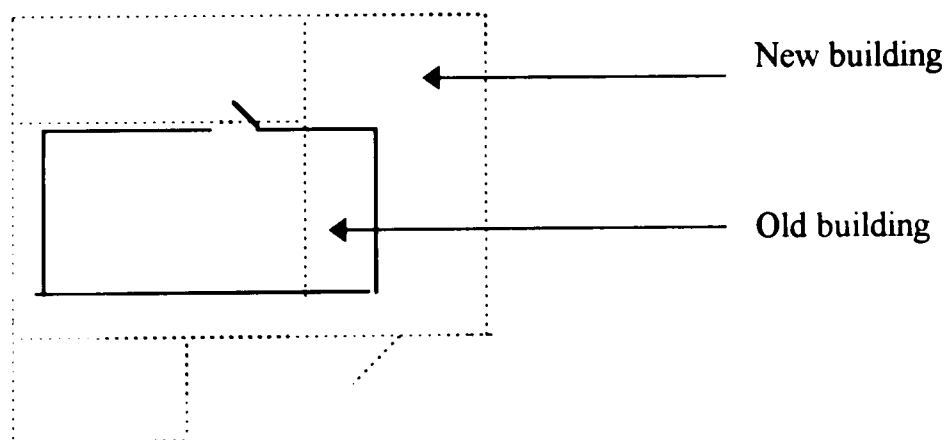
¹¹⁰ A van would cost upwards of R50 for a trip from town to Cato Crest while a bus would be R1 each way. During the field research people were often observed walking back in the evening after a day's work in town carrying planks of wood from their work place or a supplier in town.

was the large amount of building materials on the roofs of shacks in Cato Crest particularly those where the owner was in full time employment¹¹¹. In two cases access to such waste was seen as an additional source of income by workers able to sell these materials to other Cato Crest residents who did not have access to such materials from waged employment. Such workers were therefore on the bottom rung of the waste system (De Kock 1987) and although they were in formal employment they also operated an informal survival enterprise selling and transporting waste building material. Therefore while the use of scrap material as a means of saving money just represents good management practice it also needs to be put in the context of the wider economy in which scrap materials are transferred from the formal economy to squatter communities through the employees of the formal sector.

9.3.2.3 Construction in stages

As was mentioned earlier construction work could be implemented in stages. The advantages of this was that trading could continue while the construction work was completed and it allowed the financing of construction work to be spread over a longer period therefore reducing the strain on cash flow. Richard adopted this process by building new premises, including a roof, over his original two room shack (Figure 9.3) while maintaining the original building. When this was completed he was able to knock down the walls and the old roof that were not needed to make additional space. The new building (four rooms) meant he was able to increase his stock and storage space as well as employ someone to work in the spaza with him.

Figure 9.3 sketch plan of Richard's spaza before and after construction



9.3.2.4 Second hand buildings

Only two cases were observed where second hand buildings were used. In both cases second-hand gardening huts were purchased and converted into 'Mr Phones'¹¹² for capitalist enterprises. The advantage of these huts was that they needed little construction time, which was important since both owners had full time jobs. It would seem that garden huts costing R1000- R1500 are more expensive than a basic mud and wattle house, but when labour costs and the more functional nature of the garden huts are considered (i.e. clean, dry and ready to use) then there

¹¹¹ Materials included planks, poles, shelving and ply-board and was stored on the roof for security purposes.

¹¹² 'Mr Phone' was the name given to a business where a public phone service was offered.

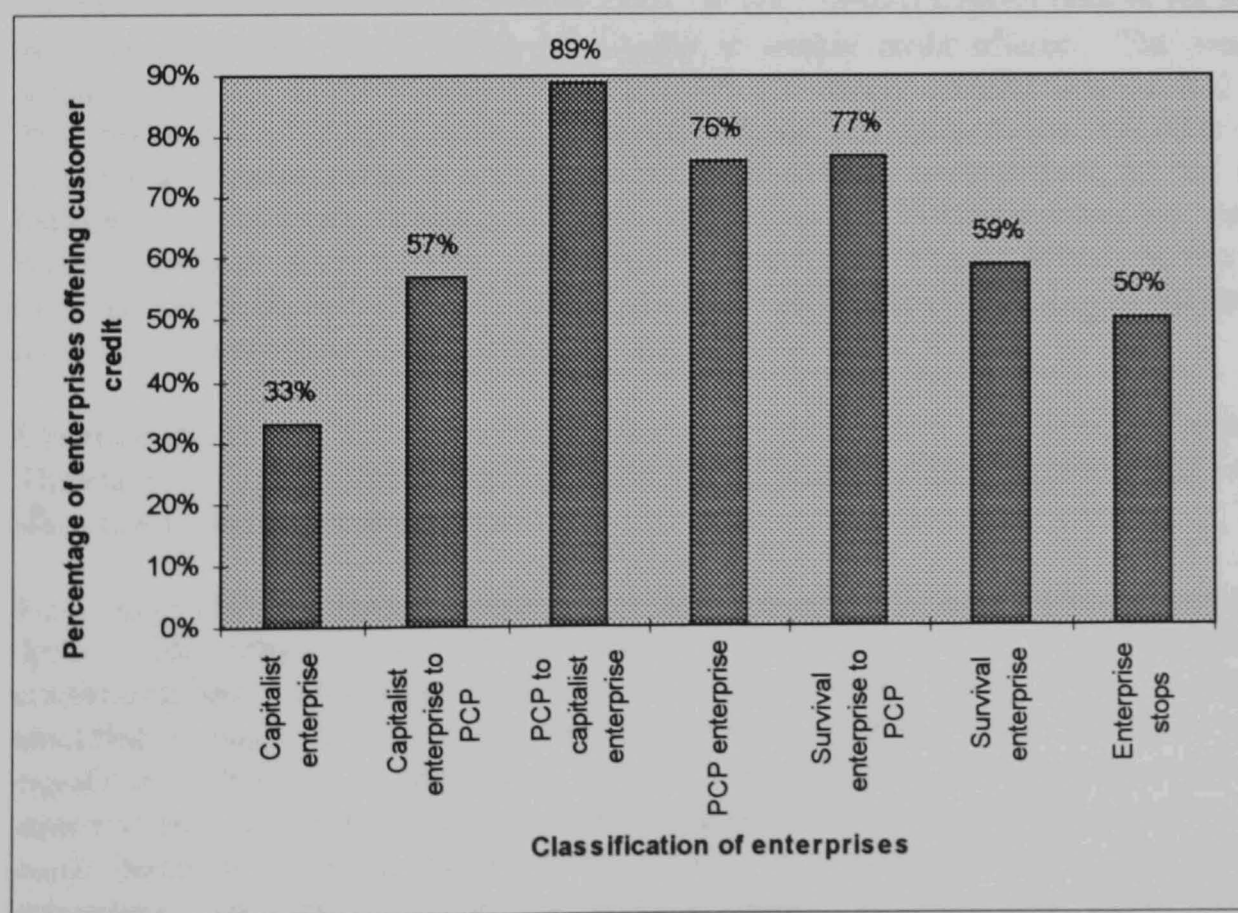
would appear to be potential cost savings. It should also be noted that again micro-enterprises act as the final destination of goods purchased in the formal capitalist sector.

9.3.3 Use of customer credit

Eighty two (62%) of the sample stated that they provided customer credit. Fifty two provided on average R90 in weekly credit, while forty four provided on average R280 in monthly credit. The advantage of customer credit is that it has the potential to facilitate the growth of micro-enterprises by increasing turnover, but this needs to be balanced by the provision of too much credit leading to the decline in the micro-enterprise through reductions in cash flow, or the loss of cash through defaulters and poor repayments. It is the interplay of these factors which would appear to determine its role in both educating financial needs and in the growth and decline of micro-enterprises.

There would appear to be a wide difference in the provision of customer credit between the different types of enterprises (Figure 9.4). It would however appear from this and the semi-structured interviews that capitalist enterprises were less inclined to offer customer credit than other classifications.

Figure 9.4 Comparison of customer credit with the classification of micro-enterprises



Capitalist enterprises typically have higher turnover than PCP or survival enterprises. There was therefore not the same need to offer credit to increase turnover and in cases where it was offered it was either for small amounts of weekly credit to a very limited number of customers or in two cases larger amounts of monthly credit with an implicit interest rate charged. For example Msome (interview 126) provided an average of R1,500 in credit each month to a group of regular customers who were in full time employment or pensioners; there was therefore limited risk of

default. However in addition some charged prices slightly above the normal price for goods on credit, in order to cover the opportunity cost of this credit and the risk involved in such credit provision. The price differentials were rather ad hoc, and therefore it was impossible to work out an interest charge, but the prices for goods on credit were in the region of 5-10% above his normal cash price.

However for the other¹¹³ classifications a much higher proportion of enterprise owners offered customer credit. It would therefore seem that the option to save finance by reducing customer credit and therefore make finance available for other forms of working capital other than credit was only available to capitalist enterprises. It should be noted that this represents a rather static view and it is likely that enterprises prior to growing into capitalist enterprises offered credit and then having increased their turnover through such a measure slowly either reduced the amount of credit offered or made a charge for that credit. While there was no clear evidence of this from the existing capitalist enterprises it should be noted that in the ten months of field work PCP enterprises growing into capitalist enterprises were all associated with higher provision of credit. Therefore it would seem that in the opinion of enterprise owners, other than capitalist enterprises, the potential benefit of increased turnover from offering credit would appear to outweigh the potential gains made from any such financial savings by reducing such credit. This opinion however needs to be seen in the context of the different position of micro-enterprises. Capitalist enterprise owners have already established a regular core of customers are not in such an urgent position to increase turnover as PCP and survival enterprises.

As well as the option either to provide credit or not, micro-enterprise owners could choose to increase or decrease the amounts of monthly or weekly credit offered. The mean monthly amounts of credit varied between R110 and R370 and weekly amounts between R32 and R159. PCP enterprises and those growing into PCP enterprises had higher means than other enterprises. However what is important is not so much the scale of credit being offered, but the relationship between credit and total finance. Capitalist enterprises and PCP enterprises that were growing had much higher stock to credit ratios than PCP and survival enterprises. In fact it was the survival enterprises with the more limited assets who had the lowest stock to credit ratio which in some cases went below one (interview 128 and 147).

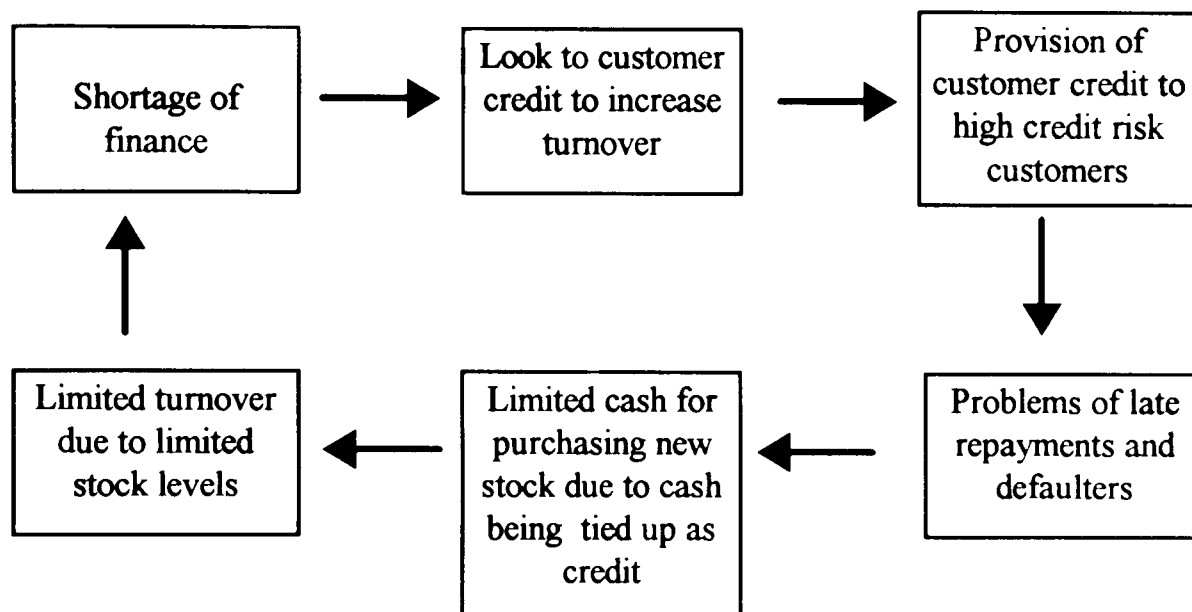
Customer credit is in the form of a promise to repay in cash at the end of the week or month. Therefore it is not just the amount of credit that is given, but the proportion that is repaid and when it is repaid that is important.

Forty seven (57%) of the enterprise owners who gave customer credit indicated problems of bad debts. The critical factor was the ability of enterprise owners to screen customers for creditworthiness. Knowledge of the type of employment and length of time in the area were identified as major factors in this screening process. However while the survey indicated no significant difference in bad debts between classifications, the semi-structured interviews indicated that capitalist enterprises and PCP enterprises growing into capitalist enterprises were much better at screening customers for credit. In contrast PCP and particularly survival enterprises were often forced to give credit to people they knew they would have problems receiving repayment from in order to gain custom. This in effect meant that they acted as a form of social security providing credit to the un-creditworthy and unemployed who could only offer to repay occasionally. Therefore the most marginalised enterprises would often be providing credit

¹¹³ The one exception was enterprises who stopped and the lower credit figure for such enterprises could be explained by the fact that they did not offer credit because they had stopped trading when they were interviewed.

to the most marginalised within Cato Crest. This creates a vicious circle (Figure 9.5) since the resulting repayments would often be poor and late and the amounts given on credit in relation to stock high, therefore perpetuating this state of marginal activity.

Figure 9.5 Credit and the cycle of poverty



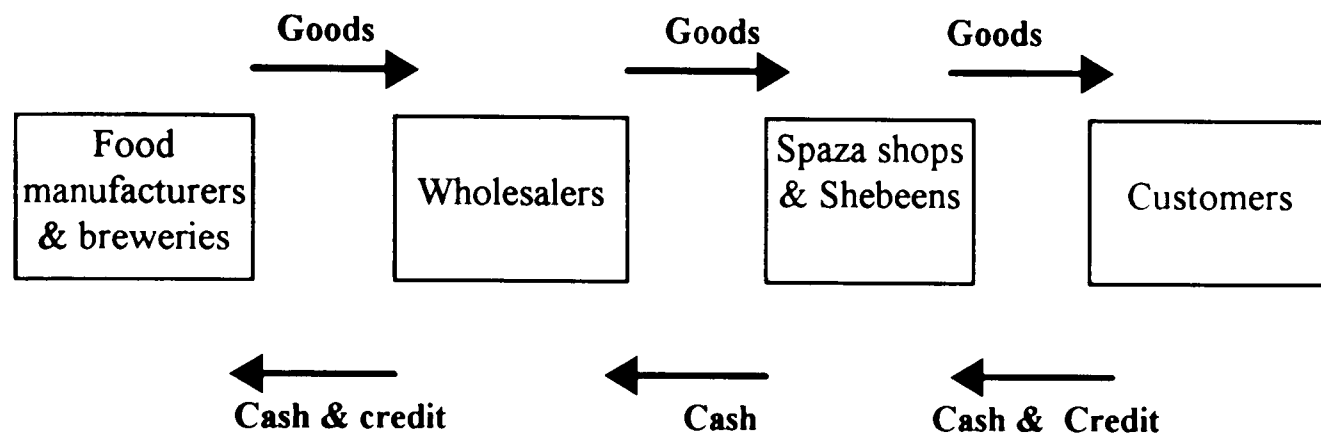
The attitude to credit also would appear to reflect an important distinction between capitalist and non-capitalist enterprises. Capitalist enterprises tended to choose to provide credit based on a comparison of alternative options and an informal assessment of creditworthiness. While this was not an exact or formal system it was clear from interviews and observations¹¹⁴ that credit for capitalist enterprises involved a conscious decision both in terms of whether to offer customer credit and to whom it should be offered. This was also reflected in better record keeping and better monitoring of debts than other classifications of enterprises. For example Eric's capitalist enterprise (interview 63) provided a telephone service and credit was very rarely given. However the researcher was present in one case where it was given; a mother did not have enough money to pay for the call, so she had to leave her baby with Eric's employee as a guarantee until she could return with the correct money. This type of strictness with regard to the provision of credit was not observed in non-capitalist enterprises.

In contrast although PCP and survival enterprises still viewed credit as a means of increasing turnover they tended to make judgements on the provision of credit based more on whether the people were their friends or had no other source of credit. For example Lillian (interview 56) owned a PCP enterprise and made and sold local sorghum beer, but she often sold it on credit to customers, particularly friends, with little expectation of it ever being repaid. Records were rarely kept of the amounts owed and sadly in one instance the records were used by one of her children as toilet paper. While this can be viewed as bad management practice it does reflect the very different approaches and attitudes to enterprises that PCP and capitalist enterprises have. Therefore while Eric's business reflects very much good practice for a capitalist enterprise the attitude of Lillian reflects very much the historical role of beer brewing in which the social functions and obligations of customers (Hellmann 1934) played as much a role as the purely monetary aims of the enterprise. While this could be viewed as 'bad management'; from her perspective it seemed normal practice in which the relationships with the customer were as important if not more important than those of maximising her profit.

¹¹⁴ Typically semi-structured interviews lasted two to three hours and allowed for observation and discussion on who was offered credit and why.

The provision of customer needs also to be understood in the context of the wider economy. For example spaza shops and shebeens are a link in the distribution chain (Figure 9.6).

Figure 9.6 Flow of goods and payment for goods in the distribution chain



While spaza shops and shebeens have very little opportunity to access trade credit (6.2.1) they are often obliged due to their limited stock turnover to provide credit to their customers in order to increase turnover. For PCP enterprises and survival enterprises this is compounded by an inability to increase stocks or reduce the price of goods sold due to their very limited finances. As a result the option of providing credit to increase turnover often becomes the only option available.

In contrast the wholesalers and food manufacturers, who have access to alternative sources of finance through the formal financial sector as well as the option of their own considerable resources, are able to pass on to the spaza shops and shebeens (who have very limited financial resources and options) the role of providing credit without themselves entailing any additional costs or risks from that credit provision.

9.3.4 Efficient use of stock

Stock was for the majority of enterprises surveyed the largest asset and therefore its replacement represents a major financial need of most enterprises. The timing of stock purchases is central to the growth potential of micro-enterprises. Stock control for micro-enterprises primarily reflects the ability of the owner to transform sales of goods into replacement stocks. The more efficient the use of stock the less need for finance for such stock replacement. Two aspects of stock control were observed to be central to potential financial savings; the number of times stock was purchased each month and the type of transport used.

9.3.4.1 Number of stock purchases

An examination of weekly purchasing patterns of retail enterprises reveals that the number of times stock was purchased varied between 1.3 and 5.8 per week. While these figures do not represent total amounts purchased they do indicate widely different approaches to stock control.

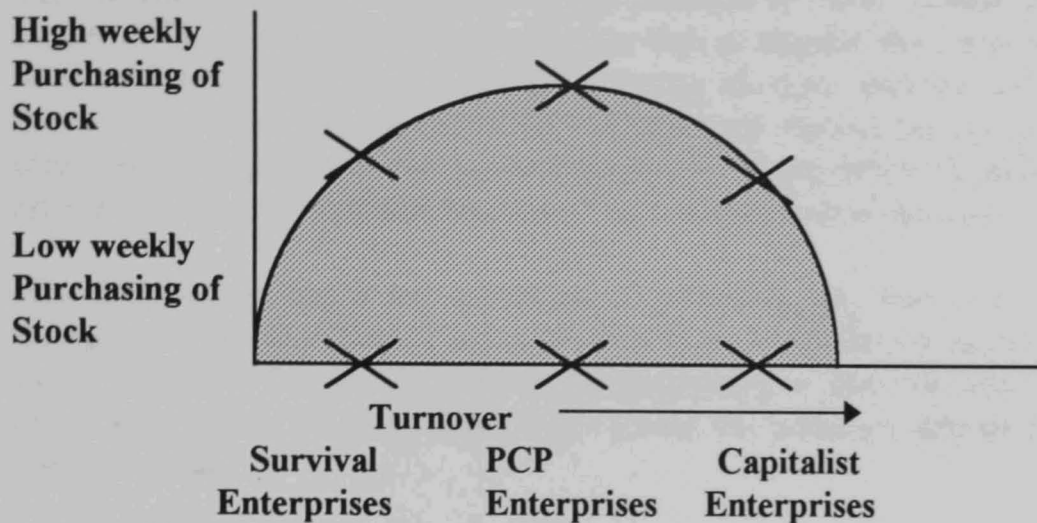
Capitalist enterprises declining into PCP enterprises would appear to have the least frequent purchasing patterns. This is consistent with their poor turnover and the resulting need to reduce labour costs by moving from paid to own and household labour. However enterprises that are growing either into PCP or capitalist enterprises are characterised by regular purchasing of new stock. For example Qulu (interview 104) on each of the seven visits to her enterprise had purchased goods from the market that day, therefore enabling her to replace existing stock before it was completely run down and also to add new products to her spaza and therefore increase her potential sales.

In contrast the lower purchasing figure for survival enterprises reflects their marginal status and their limited financial resources. Purchasing only once or twice a week reflects the very limited turnover of such enterprises since in most cases insufficient revenue was generated daily to provide revenue for the next stock purchases. For example, Mabel (interview 41) a vegetable seller working next to a tap kiosk was observed to have stock levels of between R22 and R30 and was only able to purchase new stock twice a week from the market in town. She explained that she was unable to increase the numbers of purchasing trips since she did not earn sufficient money from the enterprise and the water kiosk to increase her stock beyond the minimum twice weekly purchases¹¹⁵ of R15 to R20. This condition typified the position of the majority of survival enterprises unable to earn any more money to increase stocks and only able to replace existing stock with new stock when no other problems or calamities faced them. Therefore while it would be expected that survival enterprises faced with limited financial options would buy more regularly to compensate for the lack of finance, the evidence from Cato Crest would appear to indicate that such enterprises, due to the cost of minimum stock purchases and transport costs, made fewer purchasing trips each week than PCP and capitalist enterprises.

The result is a pattern similar to Figure 9.7 where weekly stock purchasing is more frequent for PCP enterprises but lower for both capitalist and survival enterprises. In the case of survival enterprises this is due to very limited finance, while for capitalist enterprises the advantages of bulk buying and more efficient use of transport allow them to buy larger amounts less often. While the pattern will in part reflect the type and needs of different enterprises the evidence from similar types of enterprises supports this view. For example survival shebeens typically purchased once or twice a week, while PCP shebeens purchased daily or more often and capitalist shebeens purchased large orders only two or three times a week.

¹¹⁵ The minimum purchases represented the minimum quantity of any item in the Durban market that could be purchased. For example a bag of oranges cost R15.

Figure 9.7 Stock turnover, number of purchases per week and enterprise classification



9.3.4.2 Transport costs and stock control

Increased weekly stock purchasing is a critical factor in generating more rapid turnover for micro-enterprises, but it needs to be balanced with the cost of transport for such purchases. Stock purchasing costs are both in terms of actual transport costs as well as the opportunity cost of time spent in travelling. Three options were open to enterprise owners. The first option was to travel by bus or taxi to the market or wholesaler and then carry back the stock. The cost of this would be between R2 and R4, but the limit would be the amount that could be carried. The alternatives would be either to hire a truck for the journey back or to have the goods delivered by the wholesaler. These two options would cost between R25 and R50, but again could be justified for large orders. However it is not just the financial cost, but the time involved which is critical. For example Richard (interview 57) would visit the wholesaler every day and was observed to spend in excess of twenty hours per week travelling and purchasing, as well as carrying the stock back by hand.

In a situation of limited finance, financial savings both by the efficient use of stock and limited expenditure on transport, facilitate the growth of micro-enterprises, or at a minimum maintains the existing level of such enterprises. In all enterprises it is an important factor but in a situation of scarce finance it is critical. However it should be pointed out that for many survival enterprises the potential for efficient stock management is severely constrained by their limited finance.

9.3.5 Household labour as a finance saving device

Using unpaid household labour provides the facility for enterprise owners to save money. The growth and decline in micro-enterprises between capitalist and PCP enterprises reflects this process of substituting household and paid labour since growth is associated with enterprise owners choosing to employ paid labour rather than household labour while decline is associated with such paid labour being replaced with household labour. This is reflected in the fact that all the capitalist enterprises that declined into PCP enterprises, and therefore stopped employing

staff, used household labour. However there are a number of dimensions to household labour that need to be explored.

Most household labour in Cato Crest was provided by either women or children. An important aspect of this for the household unit was that it allowed the combining of both domestic or household duties such as the caring for young children, cooking and cleaning with economic activity. However since the roles did not appear to involve any buying of stock or pricing and credit decisions and there was no direct monetary compensation for the work carried out it would appear that the non-capitalist function of such employment dominates.

Household labour has a key advantage of providing long hours for trading. Typically most enterprises were open from 7 am to 8 pm or 9 pm seven days a week. Such hours required the use of household labour. In addition the purchasing of stock involves the travelling time of the owner each week and there is therefore a need for additional labour for those hours when the owner is absent.

In the absence of household labour owners seeking to maximise their stock levels would be faced with the dilemma of either closing the enterprise down or reducing the number of purchases per week. In both cases there is a potential negative impact on turnover. Female owned enterprises particularly faced this problem. For example only seven (17%) of the survival enterprises owned by women were able to use household labour in their enterprise. Semi-structured interviews supported this finding, since it was very rare for male members of the household to help in running the enterprise owned by women. As a result household labour for enterprises run by women was often restricted to children and their ability to use household labour as a finance saving measure in order to grow was therefore limited.

While there are some advantages in using household labour some disadvantages were also observed. Firstly the use of household labour was dependent on there being no alternative option for employment of household members. Therefore household labour provided a stop-gap solution for household members until alternative employment opportunities appeared. This problem was faced by Sipiwe (142) when his wife, who had run the spaza shop for him found a job. He was then forced to employ someone, but given the limited turnover the enterprise could not justify this cost and it continued to decline until he was forced to stop employing the worker and to work in the enterprise himself. However by this stage the stock level had been depleted from its previous level of R500 to under R150.

The other disadvantage related to child labour. This tended to be very unreliable and dependent on school hours and holidays. The added problem was that stock would be consumed by the children if they worked in the enterprise. Nokuthula (interview 9) whose enterprise grew from a survival to a PCP enterprise lost a lot of her stock in the two weeks over Christmas when she went to the rural areas and left her children to run the spaza shop. It took her several months after this to regain the stock level that she had achieved prior to this period.

9.4 Conclusion

Finance saving measures and the use of equity would appear to play a role in the growth and decline of micro-enterprises (Figure 9.8), although the outcome would appear to be dependent upon the various measures adopted and their interplay with other factors in enterprise

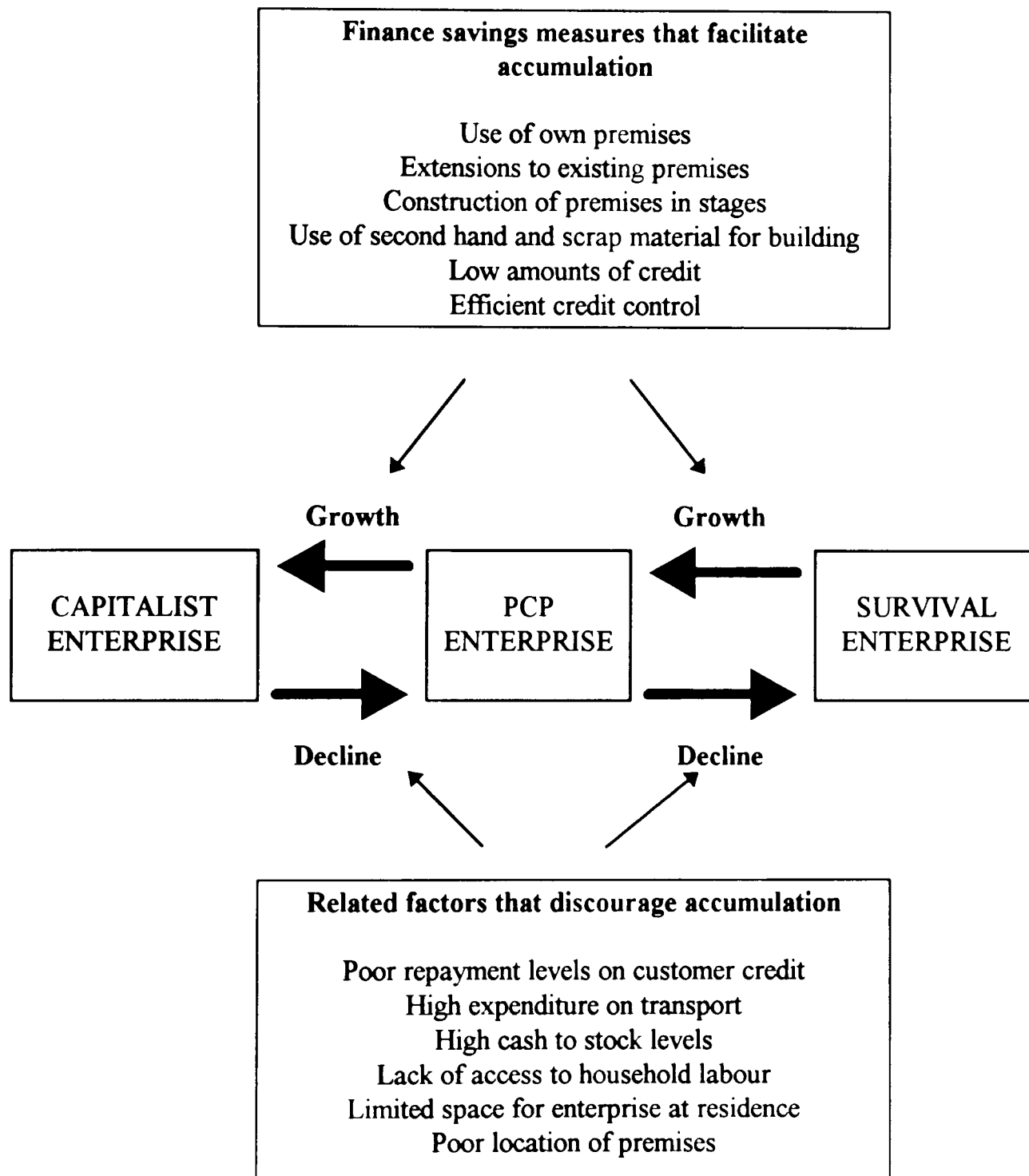
development. In many ways such measures just represent good management of resources by micro-enterprise owners.

It would therefore appear from this study of finance saving measures that all are able to assist in the growth of micro-enterprises from PCP to capitalist enterprises. However the position of survival enterprises within the wider economy and in terms of their limited financial resources mean that such finance saving options, while enabling some savings to be made, actually perpetuate the position of such enterprises. The continuation of survival enterprises is therefore perpetuated by the use of such measures, both by helping the enterprise to continue through savings made and by constraining its ability to grow into a PCP or capitalist enterprise.

Partnerships would appear to play a similar role. In most cases partnerships would only be adopted by survival enterprises and, given their informal nature, they would appear to be unlikely to produce enterprises capable of growth. In the one case when it is used by a capitalist enterprise it was observed that where capital and labour were separated there was some potential for such a partnership to work. Therefore partnerships would appear to encourage either the maintenance of survival enterprises or in occasional cases the growth into capitalist enterprises.

Finally the relationships between micro-enterprises and the formal capitalist economy are again highlighted. Credit and the use of waste materials were both used by micro-enterprise owners as measures to reduce financial needs, but both need to be seen in the context of their relationship with the wider economy in which both act as the last part of the chain for either distribution of goods or the use of waste materials.

Figure 9.8. The affect of finance saving measures on the growth and decline of micro-enterprises



10. The role of hire purchase in the growth of micro-enterprises and its relationship with the formal capitalist sector.

'Easy terms'

(The name given to hire purchase by enterprise owners in Cato Crest)

10.1 Introduction

This chapter examines hypothesis three and argues that hire purchase is a source of finance that is primarily geared to the needs of formal capitalist industry. Such finance mainly benefits formal capitalist industry and micro-enterprise owners only have access to it when their interests coincide. The chapter will examine how hire purchase works and then its role and importance within the context of the South African economy. It will then explore the role of hire purchase in the growth of micro-enterprises and its impact on asset and labour to capital ratios.

10.2 Hire purchase as a source of finance

Hire purchase is the hiring of equipment with an option to purchase (Drury 1982) through the payment of instalments in accordance with a contractual arrangement (Hanson 1985). While in South Africa the term 'hire purchase agreement' is legally referred to as an 'instalment sales agreement' for the purpose of this thesis the term hire purchase (HP) is used (McQuoid-Mason 1990).

Thirty six enterprises in the survey (27%)¹¹⁶ used this form of finance (see 5.2.1). However, HP was used by 73% of capitalist enterprises, with a mean of R2,888¹¹⁷. This supports the findings of an earlier survey (Reynolds 1995) conducted during the preliminary field work in Amoati, which identified that 63% of micro-enterprises used hire purchase. It would therefore appear from this evidence that hire purchase is the main form of external finance available to micro-enterprises in Cato Crest both in terms of quantity and size of such finance.

10.3 Operation of hire purchase

The HP industry is geared to the retail and manufacturing sectors. Unlike other forms of enterprise finance it is important to realise that products on hire purchase used by Cato Crest residents are bought on a consumer rather than commercial basis. The retailer sells the goods on HP but is largely neither aware nor concerned as to whether it is to be used for domestic or commercial purposes. Therefore while refrigerators may be used by spaza shop owners and knitting and sewing machines used for self

¹¹⁶ n=135

¹¹⁷ n=29

employment, the provision of finance is not directly related to the past or present performance of such micro-enterprises.

In a survey of 12 furniture retailers in the Durban CBD all provided HP to the self employed for the purchase of refrigerators. In evaluating credit decisions all adopted a standard application form. This provided information in a number of key areas:

- stability in terms of employment and residence.
- ability to pay in terms of income from full time employment (as a rule 20% of income was viewed as a maximum for instalments).
- past credit worthiness, based on trade references.

This was combined with a credit search by a credit bureau. In all cases the most important information was the past credit worthiness, assessed by means of trade references which were always verified. This was facilitated by an informal agreement between members of the furniture store association that enabled past customer accounts to be easily checked. This meant that credit decisions did not have to be based solely on the relationship between one retailer and the customer. Therefore once the customer has initiated some form of credit transaction with a furniture stores any other retailer can then check on the credit worthiness of the customer applying for hire purchase at his store.

In only one case was a points system used for assessment; in all the other cases the application form was combined with an interview with a credit controller. This interview was seen as critical in providing additional information. Credit was viewed as being 'risky' and in many cases it depended on the 'gut reaction' of the credit controller. The role of the credit controller in building up a relationship with the customer to verify ability and willingness to repay was therefore central to the credit decision.

The decision time on approval of loans was typically one hour and in some cases could be as little as five minutes, therefore minimising administration costs. Estimates from interviews indicated that administration costs of between R90 and R100 per transaction were involved, which worked out at approximately 3% on a typically priced refrigerator sold on hire purchase.

Hire purchase charges are governed by statute and retailers generally charge the maximum interest allowed (28-29%). This is higher than interest on formal banking and NGO credit (14%-25%) but much lower than informal rates (150%-200%).

However, there are additional sources of revenue in hire purchase which could mean that the effective interest rate is much higher. Insurance and guarantee schemes were normally provided by the large retailers who often had their own subsidiary division offering such services. This was charged at a rate of between 5% and 10% of the cost of the product and there was scope here for additional profit to be made by the insurance subsidiary. It was unclear if such insurance was presented as compulsory, but the micro-enterprise owners felt it was expected that they take out insurance both against theft and for damage. Finally retailers typically offer goods at a higher price including a large in-built profit margin which can then be discounted through negotiation if a cash payment is made. The net result of such higher pricing is that there is likely to be a further hidden interest charge of upwards of 10% on the sale price when hire purchase terms are agreed.

It was impossible from the semi-structured interviews with the larger retailers to identify what profit margins they operate on with respect to hire purchase provision¹¹⁸. However from an interview with a small scale private financier¹¹⁹ which provided hire purchase finance mainly in rural KwaZulu Natal for smaller retail stores it would appear that based on the cost of finance borrowed from the banks at 17% and the HP charges to customers of 29% there was a significant margin for profit, even after allowing for defaulters. This is likely to be significantly bigger for the larger retailer stores which can reduce the cost of finance through economies of scale and are able in addition to gain from insurance and the higher sale price of goods on hire purchase.

Although the system is primarily geared to formally employed people living in townships there have been a number of innovations to enable those in informal employment and settlements to gain access to such credit. Only six of the owners (14%) using hire purchase had full time employment and in total nineteen (53%) households were completely dependent on the enterprise for their livelihood and had no full time employment in the household.

The following three innovations ensured that micro-enterprise owners could also gain access to hire purchase finance for buying certain capital items.

1. Informal settlements pose a potential difficulty in terms of proof of residence and given the violence in certain areas of Natal this has become a critical point. Some stores consulted their debt collectors; if the debt collector felt that a certain area was dangerous or risky to deliver to or collect from or if there was a history of defaults by people in that area then it would in effect be red lined¹²⁰. In such cases hire purchase would either be refused or a premium put on the cost of the hire purchase, either reflected in the price of the product or the size of the deposit. To counter this a number of micro-enterprise owners in Cato Crest said that they gave an address in Kwa Mashu or Umlazi (nearby townships) to avoid any problems over residence. This was also confirmed by the retailers who said that only at a later date after completing the agreement were they informed that the customer lived in an informal settlement.
2. A second problem was with people who had no trade references. A number of measures were adopted to accommodate this. Firstly the deposit was raised from a statutory 10% to 15-25%. This allowed the retailer to reduce his exposure to risk. Some stores insisted on delivery to the consumer, if the customer was using hire purchase for the first time, in order to check the customer's residence. Finally, the amount allowed for HP was restricted. If the person was able to repay back the initial sum then he or she could graduate to a larger amount, not necessarily with the same firm since once a customer had established a good record those records are open to the other firms.
3. A third problem was how self employed people could prove they had a regular income. One of the main ways was to show a bank statements or passbooks to the retailer. If he had not overdrawn on his account and had been paying in regular amounts over the last year then he could be viewed as credit worthy. A second option was for people to show their weekly receipts of purchases from the wholesaler which provides an indication of the level of sales.

¹¹⁸ Profit margins were viewed as sensitive areas, and there was a degree of reluctance about giving information, other than in broad terms.

¹¹⁹ Challenor Finance

¹²⁰ Red lining refers to the technique of excluding certain areas on the grounds of credit or insurance risk. There was a degree of sensitivity to this in South Africa, due to the often racial nature of such actions and therefore such actions were rarely admitted by people.

The self employed were viewed in only one case as being high credit risks by retailers. In fact in three interviews retailers viewed them as being better re-payers than those in formal employment. However, despite this, it was general practice that spaza owner applicants were typically asked to pay a slightly higher deposit of 15% to 20% of the purchase price. Deposits were also varied depending on the goods being provided. Knitting and sewing machines to self employed people were seen as more risky due to the instability of such employment and hence deposits were higher. However it is interesting that in no case did the retailer make an assessment of the enterprise. It would seem more to reflect a policy by all the retailers and probably the experience of past hire purchase for such equipment. This view is again reflected in the fact that of the seven tailors in the sample only four were able to get a machine on credit terms. It would also appear that there was more insistence in these areas on the owner being in full time employment which is reflected by the fact that all four machine owners had a household member in employment. Generators were also viewed as being risky but more due to the problem of theft, and deposits were therefore put at between 30% and 50% of the purchase price.

On a national scale 498,326 private civil judgements for debt were made in 1993 (ITC 1994) to a value of 2,933 million Rand. This represents approximately 4% of the total credit provided. There are no exact figures for repossessions since approximately 20%¹²¹ are made on a voluntary basis. However CSS (1993) data indicates that judgements were made on only 8,665 instalment cases in 1991 to a value of 117 million Rand. Using the 1990 figure for HP this represents approximately 1.5% of hire purchase. This is supported by the survey of retailers who estimated poor repayment¹²² levels varied between 10% and 25%, but in all cases the level of default¹²³ was between 1% and 3%. This low level of default would also confirm the evidence from the survey that the provision of hire purchase is in itself potentially profitable.

Repossessions whether compulsory or voluntary are generally viewed as being important in ensuring the enforcement of hire purchase agreements (Drury 1982). However, it would appear from the statistical evidence and discussions with retailers that the key determinant in ensuring repayment is the screening process and the prospect of future credit rather than the threat of repossessions. This was again supported by the evidence from Cato Crest where no case of repossession was observed either against micro-enterprise owners or other residents in Cato Crest. Hire purchase was not only used by micro-enterprise owners, but while the researcher was walking around Cato Crest furniture vans were regularly observed to be delivering furniture and electrical/gas appliances to residents and in no cases were repossessions observed.

10.4 The importance of hire purchase in the context of South Africa

The importance of hire purchase as a source of finance can be seen from Table 10.1. While total credit for Africans is very small (5%) they received 25% of the R7,448 million financed as hire purchase in 1993. This figure is even more significant when it is seen that hire purchase provides 53% of the total credit used by Africans in 1990.

However the significance of HP is not just for the individual who receives the finance. It is primarily the retailers and manufacturers who benefit from the high levels of HP finance being used. For many

¹²¹ One retailer stated that as a rule of thumb 20% of repossessions were voluntary and 80% went to court.

¹²² Poor repayments were those where only occasional late payments were made.

¹²³ Hence a default and bad debt existed when less than one payment had been made in the last four months or less than two in the last six months.

goods it is the primary means of sale; for example a 1993 survey of electrical appliances in Natal identified that 80% of refrigerator purchases had been or were at present on HP (DRA 1993b). Given that the 1993 sales nationally were 250,000 refrigerator units and 130,000 freezer units the importance of HP for retailers and manufacturers of these two items cannot be underestimated.

Table 10.1 Comparison of various sources of private finance according to race

Ethnic groups	White African	Coloured African	Indian African	Black African	TOTAL
	Million R	Million R	Million R	Million R	Million R
Advances by building societies	19,149 (82%)	1,681 (7%)	1,681 (7%)	841 (4%)	23,352 (100%)
Bank loans & credit	34,060 (90%)	1,135 (3%)	1892 (5%)	757 (2%)	37,844 (100%)
Hire purchase	4,469 (60%)	745 (10%)	372 (5%)	1,862 (25%)	7,448 (100%)
Total	57,678 (84%)	3,561 (5%)	3,945 (6%)	3,460 (5%)	68,644 (100%)

(Adapted from: Van de Berg, 1992)

The key role of such finance for retail sales and manufacturers can be further seen by an examination of the credit squeeze of the mid 1980s. When the government raised the minimum deposit on HP there was a resulting reduction in HP and consequently in sales of goods that had previously been bought on hire purchase. In order to combat this and to avoid a drop in sales the main manufacturers of refrigerators and freezers offered to provide an alternative to retail financed HP that was financed by themselves. A form of consumer credit which avoided the legislation on deposits was used since there was no deposit requirement for consumer credit compared to HP. However while this option shows the importance of such a form of finance it has tended to restrict access to such sources of finance as it involved stricter credit worthiness criteria and a decision process involving head office. As a result most micro-enterprise owners without full time employment were excluded.

This relationship between external formal finance and the capitalist economy is supported by a study of the black taxi industry (Khosa 1994a). Here the need of the motor manufacturers to increase sales was met by the provision of credit finance through SABTA which fuelled the taxi boom of the 1980s. In that case the finance houses took a much more direct involvement in the provision of finance than in the retail furniture trade. In the retail appliance and furniture sector the retailer has set up its own debtors book and then sought finance either from a commercial bank as an overdraft facility (Natal Mercury 1995c), with the retailer in effect on-lending to the customer, or they used their own funds to provide such credit¹²⁴.

Two finance companies were found who provide consumer finance in Durban for the formal retail sector. These serve the smaller independent retailers rather than the larger conglomerates which, as has been mentioned, operate their own hire purchase and consumer credit service. However, while they

¹²⁴ Based on interviews with Stannic and Prefcor and information from Natal Mercury (1995c).

also complement the formal retail sector by facilitating the provision of credit (e.g. for clothes), they also provide some clues as to why more is not targeted at micro-enterprises.

These firms provide consumer credit without a deposit for goods such as clothes and jewellery. This type of credit was observed to be used by micro-enterprise owners and other residents in Cato Crest during the research period. While the term of such credit is much shorter (6-12 months) the low level of bad debts, while slightly higher 5-7%, still provides the companies with a sufficient margin of profit¹²⁵. Therefore having established how hire purchase works and the fact that it is a very effective means of providing a form of consumer credit to customers including micro-enterprise owners the issue is why is such a form of finance not more widely available for alternative financial needs of micro-enterprise owners.

The answer would appear to in part relate to the relationship between finance and the formal capitalist economy. The close connection of retailers, manufacturers and finance houses in the provision of finance implies that finance is made available only for financing the purchase of goods where manufacturers and/or retailers have an interest in increasing the sale of such goods, such as in the South African electrical appliance and motor vehicle industries. The implication from this research is that large formal industry, in this case the producers and sellers of refrigerators, have through their position in the economy the capacity to access the financial resources, both in terms of size and cost, necessary to provide long term affordable credit. However for markets that do not directly benefit or complement the formal retail and manufacturing sector there appears to be little access to the same sorts of finance. Therefore the provision of finance for stock in spaza shops and vegetable traders or building materials for micro-enterprises in the construction sector are areas in which there is no benefit to the formal sector.

In the case of the spaza and shebeen sectors there is sufficient demand amongst existing micro-enterprises to ensure that there is only limited gain to wholesalers seeking to provide such finance. Furthermore any such finance if on any scale could pose a threat to the existing formal retail stores, who are often tied into the manufacturing and wholesale firms. It is not clear if there is overt collusion, but rather since the status quo benefits existing food manufacturers, wholesalers and formal retailers there is therefore little incentive to change the situation. Inertia rather than collusion may more accurately reflect the situation. However what is clear is that without the impetus of a clear benefit to the formal capitalist sector there would appear to be little incentive for the provision of finance to be widened to benefit more directly the needs of micro-enterprises. In sectors such as construction there would appear to be little incentive to provide finance due to the close links between raw material suppliers and the large building firms. For example the demand for cement for cement blocks is viewed as being unchanged whether they are made by a large block yard or small ones and therefore there is little incentive to explore alternatives that may change the status quo which is often characterised by monopoly conditions for both parties.

10.5 The effect of hire purchase on micro-enterprise development

Hire purchase is a major source of finance in South Africa which has developed a quick and efficient screening system to reduce credit risk and minimise administrative costs. It has also been adapted to meet the needs of both consumers and micro-enterprises in informal settlements and those in self employment. However while hire purchase is an important source of finance to many micro-enterprise

¹²⁵ Interviews with Consumer Credit Corporation

owners its impact is not all positive and a deeper study of its impact on individual enterprises reveals a clearer picture of the alliance between hire purchase and formal capital.

Hire purchase was used by micro-enterprise owners for three main purposes; the purchase of refrigerators (29), sewing machines (4) and equipment (3). To understand the impact of hire purchase it is necessary to examine how it affected the choice of investment in each of these three areas.

10.5.1 Hire purchase and refrigerators

The main products purchased were refrigerators. These are important assets for spaza shops and shebeens providing the opportunity to sell cold drinks and a wider range of dairy and meat products. Since the majority of households do not possess refrigerators, and are therefore forced to buy perishable products on a daily basis such an asset will have a significant impact on turnover and the resulting development of the micro-enterprise. The importance of a refrigerator was also supported by interviews with micro-enterprise owners who all expressed a wish to buy one if they had the money. It should also be pointed out that an added attraction of owning a refrigerator was the dual role it could have in also providing a cooling facility for household needs, although observation throughout the research period show that this was minimal.

However the purchase of a new refrigerator on hire purchase is not the only option open to a spaza shop or shebeen owner who wished to increase turnover and expand into cold products. Three alternative options are open to the enterprise; the use of ice, the purchase of a second hand refrigerator, or the purchase of a new refrigerator with cash.

1. **The use of ice blocks:** Thirty six enterprises used ice to keep drinks and food cool. This was purchased in Cato Crest from a van which delivered ice blocks to business premises. The ice was either stored in an old broken refrigerator or in large plastic containers. Each block cost R4 and enterprises typically bought one or two blocks per day on a cash basis, depending upon the amount of custom and the time of the year.
2. **Second hand equipment:** Nine enterprises purchased second hand refrigerators. These were bought for cash, since no credit was offered for such purchases, at a cost of between R500 and R1,500. Reliability is one of the main constraints to second hand equipment (Cooper and Kaplinsky 1973), but in only two cases had the refrigerator broken down and in both cases after a number of years of operation.
3. **Cash purchase:** Only two enterprises purchased new refrigerators with cash and while in both cases they stated that the refrigerators were new the prices they paid suggested that they were maybe factory damaged rather than brand new. In both cases they were PCP enterprises that grew into capitalist enterprises during the research period which suggests that the accumulation of assets was associated with such growth.

Ice blocks can therefore be seen as a substitute for a refrigerator, although the substitution is not perfect since particularly in the hot season the drinks are not able to stay cool for as long, and selling drinks early in the morning before the ice has cooled them proves a disadvantage. Ice is also a very poor chilling aid for meat and dairy products since it tends to freeze and unfreeze the products on a daily basis, depending upon the age of the ice. However the advantage of this system is that it allows flexibility on the part of micro-enterprise owners to only pay for ice when trading. This advantage is reflected in the fact that the majority of micro-enterprises (83%) who use ice blocks are PCP enterprises and survival enterprises. Enterprise owners are therefore making rational decisions in recognising that given their limited turnover the cost of ice blocks

compared to purchasing a refrigerator provides a better option for them, despite its disadvantages.

However spaza shops and shebeens that are planning to grow by increasing their turnover are at some point faced with the decision of whether to invest in a second hand or new refrigerator and how to pay for it. Refrigerators in Cato Crest are run on gas cylinders¹²⁶ which cost about R50¹²⁷ a month to run. For an enterprise using two blocks of ice per day the pay back period would be approximately eight months on an investment of R1,500 in a second hand refrigerator. In comparison the pay back period for buying new refrigerators on cash and hire purchase are twelve months and sixteen months respectively.

The pay back period for a refrigerator bought on hire purchase is therefore twice that of a second hand refrigerator which purely from an investment point of view makes it a less attractive offer. However it would appear that the reason why the majority of refrigerators are bought new on hire purchase rather than second hand with cash is that the need for finance in a finance scarce environment makes HP the only option available for purchasing such an asset. While a few people were able to buy for under R1000 the majority of refrigerators were more costly¹²⁸ and therefore most owners had insufficient savings or other sources of own or household finance to buy a second hand refrigerator on a cash basis.

It could be argued that the development of the second hand market would actually benefit the formal manufacturing sector by encouraging people to sell older refrigerators and then buy new ones. However the limited evidence from South Africa appears to indicate that this is not a policy of either retailers or manufacturers. It would seem that the approach taken is rather to attempt to increase the sales of products such as refrigerators by increasing the opportunities for people with limited finances to buy through the provision of hire purchase.

The only other financial option for owners would be to seek to use the lay-by scheme for making such a purchase. This is a system whereby the customer can only take the item from the dealer once the full price has been paid. Customers therefore make monthly payments to the dealer until they have paid off the full price and then they come to collect the goods. The dealer in effect acts as a bank into which the customer makes deposits until he has enough saved to buy the specified good. However in talking to a number of second hand refrigerator dealers it seemed that there was a reluctance to offer this system for more than a month because the stock used up a lot of space in the store and therefore reduced the number of goods that could be sold at any one time. This was backed up with evidence from Cato Crest where no one bought refrigerators on lay-by, although a number bought other equipment¹²⁹ by this method.

Hire purchase therefore enables micro-enterprise owners such as Richard (interview 57) to purchase a refrigerator for R3,500 with an initial deposit of R500 and then make subsequent payments of R200 for twenty four months. The owner is therefore never financially stretched by the payments if having made the initial deposit there is sufficient additional revenue generated

¹²⁶ Cato Crest has no electricity, despite having an electric sub-station bordering the settlement. It is likely that electricity will come when the plans for the development have been finalised and construction of houses started.

¹²⁷ Various costs for gas bottle usage were stated varying between R50 and R70.

¹²⁸ This was backed up with interviews and observation of second hand electrical appliance stores in Durban who all sold second hand gas refrigerators for over R1,500.

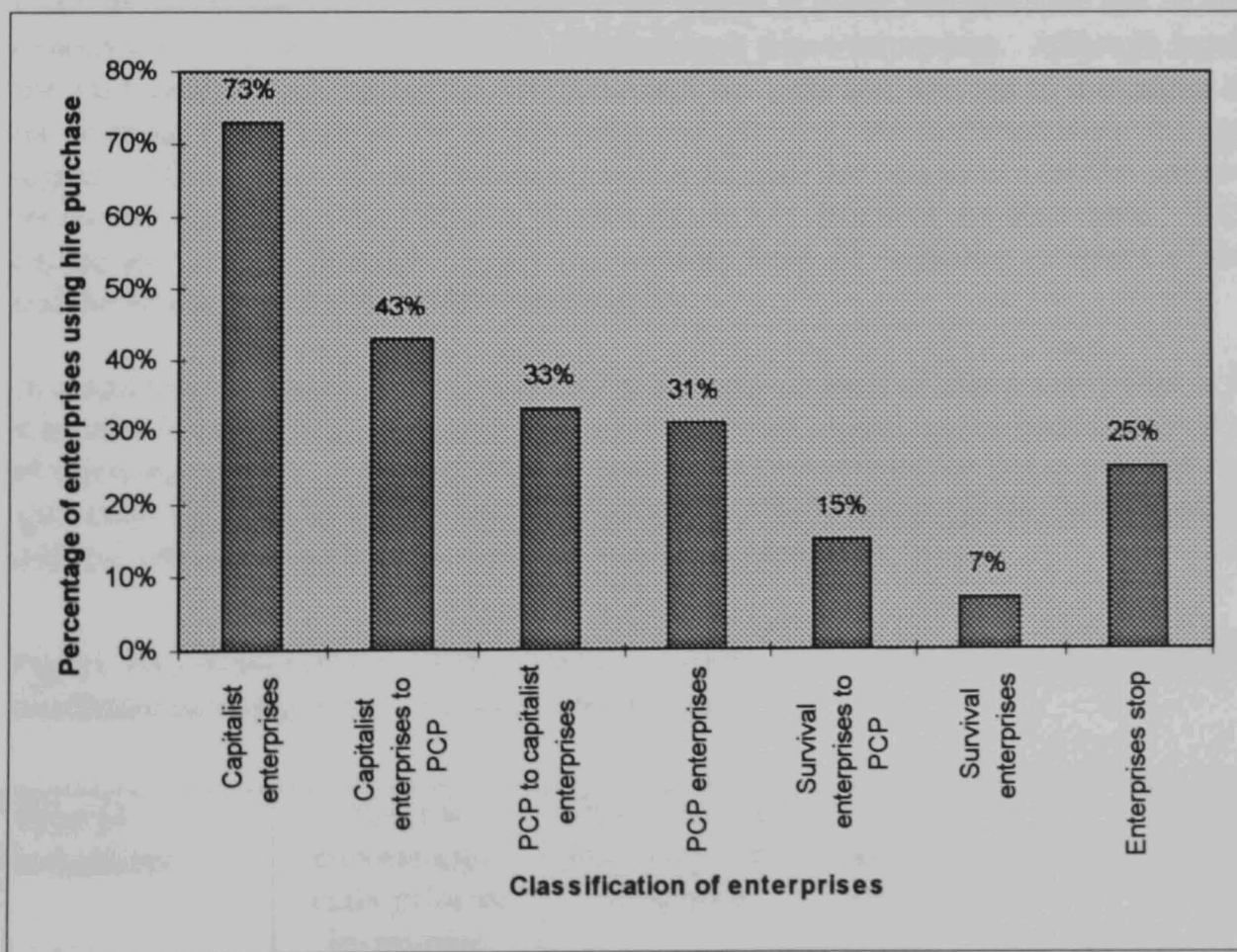
¹²⁹ Micro-enterprise owners were recorded as buying sewing machines and panel beating equipment on lay-by.

each month from the savings on ice blocks and new profits from increased turnover to make the monthly instalment payment. In Richard's case (see Figure 8.7) he has been able to expand significantly and increase his stock levels through this investment and it would have been impossible to invest even R1,000 in cash in a refrigerator without seriously undermining the enterprise through the reduction in stock levels. It was interesting to note that when he purchased the refrigerator he was initially asked for a R600 deposit but managed to persuade the dealer to reduce it to R500. This again supports the view that the majority of enterprises have very limited funds for such major investments. The two cases where cash was paid for new refrigerators should therefore be viewed with caution, particularly when it is unclear whether they bought new or factory damaged items¹³⁰.

10.5.1.1 Hire purchase and the growth of micro-enterprises

While only 27% of all micro-enterprises had used hire purchase 73% of capitalist enterprises had used hire purchase. In Chapter 5 hire purchase was identified as being potentially important in the growth of micro-enterprises. This is supported by an examination of hire purchase related to the process of growth and decline (Figure 10.1).

Figure 10.1 Comparison of hire purchase and classification of micro-enterprises



¹³⁰ This presents a methodological problem when the interview states that it has been purchased new at a certain price, but the evidence of the refrigerator and the amounts paid suggest that this was not the case. Subsequent visits were unable to provide a clearer indication of what was really happening.

This is in many ways not surprising since growth in financial assets through the use of hire purchase would be expected to lead to growth in the micro-enterprise. However what is particularly important is that the use of hire purchase for the acquisition of new refrigerators leads to the growth in micro-enterprises from PCP enterprises to capitalist enterprises. This was observed to be the case for the two micro-enterprise owners who purchased new refrigerators during the research period. In both cases the acquisition of a refrigerator and the resulting increase in the asset value of the enterprise led to the owner employing a staff member in order to capitalise more fully on the increased custom. In both cases when asked why they had employed someone they responded that the purchase of a new refrigerator meant that turnover needed to be increased in order to pay for the instalments and this was helped by employing someone to assist in the enterprise. Extra staff meant that customers could be served quicker and also meant that the enterprise could remain open when the owner was buying new stock and avoided the reliance on household labour which tended to be more unreliable than paid workers. Therefore the purchase of a new refrigerator not only meant that these micro-enterprises became more closely linked to the formal sector through the finance and the purchase of such goods, but the purchase itself lead to the growth of PCP enterprises into capitalist enterprises.

10.5.1.2 Hire purchase and its impact on the fixed to current asset ratio of micro-enterprises

From the individual enterprise perspective the impact of using hire purchase can be more clearly understood by examining the balance sheet of such micro-enterprises. Although legal title does not pass until the payment of the last instalment the risks and rewards of ownership of an asset purchase on hire purchase are substantially transferred to the customer when the agreement is signed. Hence from an accountancy perspective and the perspective of the micro-enterprise owners in Cato Crest the refrigerators bought on hire purchase are their own. Therefore the refrigerator and the financial charges are included from the beginning as assets of the business and the amount owed to the retailer as a liability.

In examining the impact of hire purchase on the balance sheet of micro-enterprises in Cato Crest it becomes clear that hire purchase has had a significant impact on the fixed to current asset ratio of micro-enterprises. The examples of the three micro-enterprises that purchased refrigerators with cash, HP, and as second-hand during the research period provides a useful insight into the different effects on the balance sheet and the enterprise (Figure 10.2).

Figure 10.2 Comparison of the different affects of hire purchase, second hand and cash purchases of refrigerators on micro-enterprises

Type of investment	Fixed to current asset ratio prior to investment	Fixed to current asset ratio after investment	Status of enterprise prior to investment	Status of enterprise after investment
Hire purchase	0.2	1.6	PCP	Capitalist enterprise
Second hand	1.4	3	PCP	Capitalist enterprise
New with cash	0.45	0.95	PCP	Capitalist enterprise

While the purchase of second hand and new refrigerators doubled the fixed to current asset ratio the ratio increased by eight times for the micro-enterprise that used the HP option. This was also supported by a comparison of the micro-enterprises that had prior to the research period bought refrigerators on hire purchase with those who had purchased second hand ones. While the immediate effect of using hire purchase on cash flow will be more limited due to the 18-24 month repayment schedule the long term effect of such an increase in fixed assets for retail enterprises is likely to be significant. In particular, the owner's ability to increase stocks or diversify into additional enterprises is constrained since the money invested in paying for the refrigerator on hire purchase is now in fixed form and therefore it is almost impossible to convert the asset into cash. In contrast if the money had been invested in working capital then this could have been more easily changed into cash in order to provide the needed flexibility for the enterprise owner.

10.5.1.3 Hire purchase and its impact on capital to labour ratios

The third impact of hire purchase on micro-enterprises is that it would appear to lead to a substitution of labour with capital. This might appear to be contradictory since in section 10.4.1.1 the affect of using hire purchase was seen to be an increase in labour through the employment of staff. However it is the ratio of capital to labour which is the critical point. Therefore while there has been at most a doubling of labour¹³¹ typically the impact of the purchase of a new refrigerator (approximate cost R3,500) has been a trebling of the asset value of the enterprise. The net result of both increases in capital and labour is an increase in the capital/labour ratio which implies a substitution of capital for labour. In a situation in which labour is abundant in Cato Crest and capital scarce this would appear to reflect a poor allocation of resources. The reason for this imbalance is that Cato Crest needs to be put in the context of the wider South Africa in which it is in the interests of the formal capitalist sector to encourage the substitution of capital for labour and in this case the use of hire purchase facilitates that process.

¹³¹ Doubling of labour is in cases when only one paid employee works only with the owner. However in cases when paid employment is either a substitute for or is in addition to household labour the increase in labour would be less.



Illustration 10.1 Pictures of PCP enterprises that grew into capitalist enterprises. Leonard (above) in his panel beating workshop. Richard (below) outside his spaza shop with his girlfriend.



10.5.2 Hire purchase and other assets

The other uses of hire purchase identified from the research were for sewing machines (4), gas cylinders (2) and a cement block press (1). These all involve much smaller sums, under R1,000, which suggests that there is potential for using own savings and household finance as an alternative to hire purchase.

For example, new sewing machines involve a much smaller investment than refrigerators since they were typically priced at between R600 and R900, and second hand machines were cheaper. As mentioned earlier the deposit was slightly higher at 20% which meant that the hire purchase amount varied between R500 and R700. This, while still a significant sum for PCP enterprises, is not an impossible sum to be saved. Therefore it would appear that unlike refrigerators the option to buy second hand with cash or on hire purchase was a very real one.

In the case of Leonard (interview 77) who purchased gas cylinders for his gas welding on hire purchase, the majority of his equipment (generator, compressor, grinder and drill) was bought second hand using the lay-by scheme. Leonard was working at this time and therefore could have purchased new equipment on hire purchase. However in Leonard's view it would be unlikely that he would have been able to afford to pay the instalments required to buy on HP.

Secondly violence forced his enterprise to close; it is likely that he would have still been paying off the money when this happened and therefore would have had his equipment repossessed during the period his business stopped. Although he did not know this would happen he would be aware of the risk of his equipment being stolen or destroyed. Therefore while Leonard used HP to buy the new gas cylinders which only cost R400 he chose to use the lay-by scheme for over R2,500 worth of second hand equipment which although it restricted his use of such equipment until he had repaid the money meant that he was able to buy the equipment appropriate to his scale of operation. This continued during the research period when Leonard bought another second hand generator, but this time he bought it with cash since he had saved enough in the bank to make such a purchase.

10.6 Conclusion

Hire purchase is the major source of external finance available to micro-enterprise owners. However while it is an important source of finance its operation has a number of implications for the micro-enterprises and the owners that use it.

- Firstly there would appear to be a clear association between the use of hire purchase and the need to employ staff to maximise the returns on such investments. Therefore the use of hire purchase for larger investments, such as in purchasing new refrigerators would appear to be associated with the growth of micro-enterprises into capitalist enterprises.
- Secondly while there is clear benefit to the owners of enterprises that grow into capitalist enterprises it is unclear if the wider economy of Cato Crest benefits from such a process. The increased integration into the capitalist economy through the growth of a capitalist enterprises has an impact on the economy of Cato Crest. Since the economy of a low income community is relatively limited in its growth potential it is likely that the growth of capitalist enterprises

with a resulting increases in their turnover and market share will lead to others, particularly survival enterprises, becoming increasingly marginalised and declining. Hire purchase therefore not only widens the market for capitalist products, but at the same time it would appear to encourage the decline of survival enterprises and their cessation.

- Thirdly the use of hire purchase is predominantly available for new and not second hand equipment. The result of this is that investment decisions of many micro-enterprise owners may become distorted, resulting in higher fixed to variable and capital to labour ratios than would have ideally been planned. This thesis argues that it is the alliance of such finance to the needs of formal industry, in this case the refrigerator manufacturers, that ensures that while there is benefit to micro-enterprises through this access to hire purchase finance it is only in selective areas where there is benefit to the formal capitalist sector.

11. Conclusion

The lives of the majority of ordinary South Africans have been touched at least fleetingly, by the informal economy. For many millions of people, particularly black South Africans, work and incomes secured in this sector have shaped the course of their working lives....This ambiguity persists to the present day, with the occasional...case of the miraculous success of the 'self made person' juxtaposed against common situations of bare survival, desperation and drudgery.'

(Rogerson and Preston Whyte in 'South Africa's informal economy' 1991:1)

11.1 Introduction

The research has sought to describe the process of change amongst micro-enterprises in Cato Crest and examine the role of financial needs and options in that process within the context of the wider economy. The chapter reviews the findings in relation to the four hypotheses developed in Chapter 2 and analysed in the subsequent chapters. It then summarises the implications of this research with regard to the understanding of micro-enterprises, the methodology for micro-enterprise research and the importance of this research to development within South Africa.

11.2 Research findings

The thesis has used an analysis of petty commodity production to examine the role of finance in the growth and decline of micro-enterprises in Cato Crest, a squatter community in Durban, South Africa. Four hypotheses were developed from the literature review (Chapter 2) and were then examined in the analysis chapters (Chapters 5 to 10). This section will summarise the findings of the research in relation to these four hypotheses.

11.2.1 Hypothesis 1: Financial needs and options available to micro-enterprises lead to the dissolution of petty commodity production.

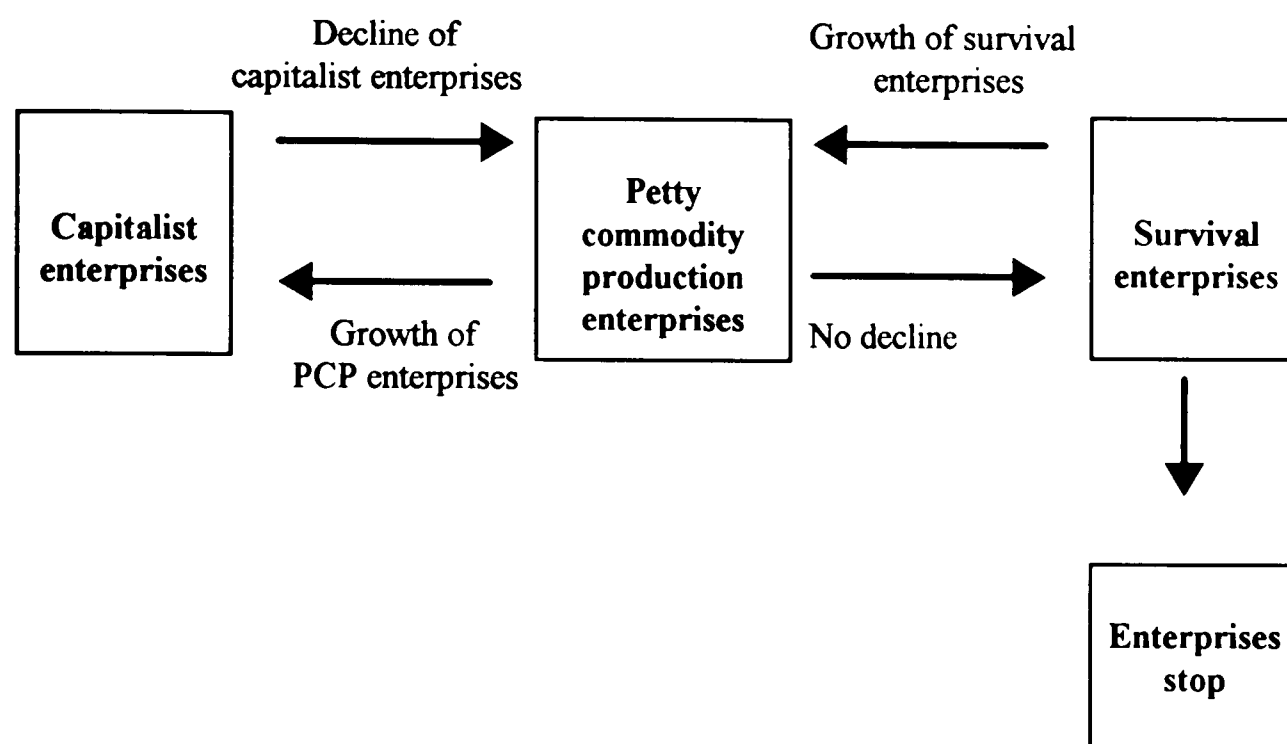
Hypothesis one was examined in two parts. First the actual process of change (Chapter 5) and secondly the role of financial needs and options associated with such changes (Chapters 6 to 10).

11.2.1.1 Growth and decline in micro-enterprises

Significant changes in the three classifications of micro-enterprises were observed during the research period. The main changes were in the 29% of capitalist enterprises that declined into PCP enterprises, the 20% of PCP enterprises which grew into capitalist enterprises, and the 19% of survival enterprises which grew into PCP enterprises, while 18% stopped (Figure 11.1). The cumulative effect of these changes was the conservation of petty commodity production during the research period. However the situation is more complex since at the same time it would

appear that there was a slight aggregate increase in the numbers of capitalist enterprises and a reduction in the number of survival enterprises. It would therefore seem best to view the enterprises under two headings; firstly the aggregate growth of PCP and capitalist enterprises under the process of conservation of petty commodity production and secondly the increased marginalisation of survival enterprises through their decline into waged employment.

Figure 11.1 The conservation of petty commodity production



11.2.1.1.1 The process of conservation

The picture revealed by the research is therefore much more complex than the straight progression over time from survival and PCP enterprises into capitalist enterprises which is sometimes assumed to characterise the development of enterprises (Anderson 1982). The structured and semi-structured interviews and the occupational biographies compiled during the ten month research period indicated continual change between the different classifications due to growth and decline. However it would appear that the move towards PCP enterprises either through the growth or decline in micro-enterprises was the dominant direction over the longer term with movements into survival or capitalist enterprises often being temporary phenomena. Therefore while there has been growth in the number of capitalist enterprises it is likely that for many of these enterprises there will be a decline back into PCP enterprises at a later stage.

11.2.1.1.2 The process of marginalisation

However the situation for survival enterprises is less clear. While the survey has identified decline in the aggregate number of survival enterprises through their growth into PCP enterprises or cessation, observation throughout the period revealed that other survival enterprises were continually being started and in effect replacing those enterprises that stopped. The net result would therefore seem to be that the decline in survival enterprises is partially offset by other people from the labour market starting survival enterprises because they cannot find work in the

formal capitalist sector. No data was collected on those starting enterprises during the research period, but it would appear from observation that the main trend was for unemployed job seekers to start survival enterprises.

Therefore a condition of dynamic stagnation would appear to characterise micro-enterprises in Cato Crest. This is where growth is occurring, but at the same time decline in other enterprises. The result of this is that while individual enterprises may grow the cumulative effect is the conservation of petty commodity production and the increased marginalisation of survival enterprises.

11.2.1.2 The role of finance in the growth and decline of micro-enterprises

The argument developed in Chapter 2 was that enterprises are either able to accumulate capital sufficient to grow and be transformed into capitalist enterprises or they are progressively weakened, subordinated and marginalised into survival enterprises and waged labour. The research therefore rejects hypothesis one since the various changes identified from the surveys and occupational biographies indicate that the cumulative result of such changes is that conservation rather than the dissolution of petty commodity production occurs. However it is necessary to examine the various roles of finance to understand what is associated with this process.

Four areas of finance were identified as being associated with the process of growth and decline in micro-enterprises; external finance (Chapters 6 and 10), employment (Chapter 7), own finance (Chapter 8) and equity and finance savings measures (Chapter 9). In each of these areas the association between changes in capitalist, PCP and survival enterprises and these areas was identified.

11.2.1.2.1 The role of finance in capitalist enterprises and growth into capitalist enterprises

It would appear that the process of growth into capitalist enterprises was associated with opportunities to purchase equipment on hire purchase, full time waged employment by the owner and the use of bank accounts as a savings facility.

1. Formal employment by the owner whether in the past or present would appear to be in part associated with the growth of PCP enterprises into capitalist enterprises. Such employment provided finance for the start up of the enterprise as well as an alternative source of income for the household, which is important both in the initial and later stages of running the enterprise.
2. Hire purchase provided an opportunity for the owners to purchase equipment for enterprises. This was associated with the growth into capitalist enterprises as the enterprise owner sought to maximise the return on investments by employing staff.
3. The use of bank accounts and stokvels was also associated with the growth into capitalist enterprises. While the role was a more passive one it would appear that they provided the opportunity for micro-enterprise owners to save and then re-invest in the enterprise and

therefore grow from PCP into capitalist enterprises. It would appear that bank accounts in particular were used for this purpose.

4. Finally a variety of finance saving and partnership measures were identified that provided the opportunity for micro-enterprises to grow into capitalist enterprises. There was only one case of a partnership amongst capitalist enterprise owners, but while it is difficult to generalise it would appear that such partnerships may have more scope for success than those for survival enterprises due to the greater separation between capital and labour that characterises capitalist enterprises. There would also appear to be more scope for finance saving measures. For example capitalist enterprises already have sufficient customers and therefore have more scope in selecting customers to give credit to as well as the opportunity to charge customers for such a service.

Therefore these financial options have contributed towards the accumulation of capital and the growth from PCP enterprises to capitalist enterprises. Secondly growth into capitalist enterprises would appear to be dependent upon and related to the formal capitalist sector which provides employment, hire purchase and banking facilities.

11.2.1.2.2 The role of finance in PCP enterprises and growth and decline into PCP enterprises

While growth in capitalist enterprises would have been expected the research has identified that the cumulative effects of changes in PCP enterprises has been slightly to increase the aggregate number of them in the sample. The financial options and needs of micro-enterprise owners would therefore appear to be associated with such a process of conservation.

1. Formal waged employment in the household was associated with the growth of survival enterprises into PCP enterprises and the maintenance of PCP enterprises. This is in contrast to the growth of PCP enterprises into capitalist enterprises where it was predominantly the employment of the owner that enabled the accumulation of capital to bring about such changes. However household expenditure also appeared to play a role in constraining the ability of enterprises to accumulate. For example households with higher household budgets would tend to be more associated with PCP enterprises than capitalist enterprises.
2. The function of stokvels and bank accounts would appear to be associated with the maintenance and/or growth of enterprises into PCP enterprises. The facility to save which is provided by bank accounts and stokvels is critical for micro-enterprises, both in terms of providing finance for investment purposes as well as in providing finance for planned and unplanned expenditures within the household. This is primarily due to the fungibility of household and enterprise finance which would appear to be a significant factor in influencing the finances of micro-enterprises in Cato Crest. Stokvel membership would appear to be more associated with PCP enterprises than capitalist enterprises whose owners appeared mainly to use bank accounts.
3. The use of finance saving measures including the use of own premises, savings on construction, reduction of customer credit, efficient use of stock and the use of household labour provided a means for enterprise owners to reduce their financial needs in a situation of scarce finance in order to either grow into or remain unchanged as PCP enterprises.

In conclusion hypothesis one has been rejected since, rather than leading to the dissolution of micro-enterprises, the financial needs and options of micro-enterprise owners are associated with the continued conservation of petty commodity production. It would also appear that financial options and needs of survival enterprises contribute to the increased marginalisation of such enterprises and the movement of their owners into temporary and casual waged employment.

11.2.2 Hypothesis 2: In a situation of scarce finance the financial options available to micro-enterprises lead to marginalised self-employment or disguised and dependent wage employment.

Micro-enterprises were identified as operating in a finance scarce environment in which there were limited options to obtain external finance (Chapter 6). The literature has suggested that in such a situation micro-enterprise owners would be forced into a variety of forms of disguised and dependent employment (Bromley and Gerry 1979). However the evidence from Cato Crest suggests that there are very limited opportunities for any direct form of disguised and dependent employment. There was, for example, very little evidence of trade credit and where it existed it did not appear to imply any form of dependent employment, nor was there any evidence of enterprise owners being forced into dependent work relationships through the rental of premises or equipment.

However the evidence suggests that rather than there being disguised or dependent forms of employment on an individual enterprise level, whole sub-sectors of enterprises would appear to operate in dependent forms of employment. The literature identified the complementary links between formal capital and sectors such as transport and trading (2.4.5.). This was supported by the research in Cato Crest where micro-enterprise purchases, particularly those of spazas and shebeens, were almost exclusively from the formal sector. Enterprises were therefore acting as the last link in the distribution chain of formal sector products. Although enterprise owners could choose from a variety of formal wholesalers or retailers they had very limited choice over the range of products they bought.

In this distribution chain it was the micro-enterprise owners who provided transport for goods from the wholesaler or the market to the enterprise, who financed the purchase of the empty bottles and crates and provided customer credit when needed. Hence enterprises, particularly survival and PCP enterprises, increased the market for the formal sector through the provision of customer credit but had to take the risk in terms of increased debts and extended credit.

Spaza and shebeen owners would appear to operate in a form of dependent employment selling a very limited range of 20 to 80 food products or two to four types of drinks. Growth in terms of size or numbers is therefore in part constrained by the dependent relationship that exists between the formal manufacturers and wholesalers and the micro-enterprises. While other products could be bought from the wholesaler they were either not demanded by Cato Crest residents or were bought by residents in town from supermarkets where discounts could be obtained from the larger supermarkets. Growth was therefore limited to the sale of a more limited range of products. However while it would appear that PCP and capitalist enterprises were able to grow in numbers or at the least maintain their position despite this dependent relationship this was not the case for survival enterprises which were increasingly marginalised.

Survival enterprises it would appear became increasingly marginalised in a situation of scarce finance. The lack of waged employment is closely associated with this process. The

marginalised within the formal labour market become the marginalised within the micro-enterprise sector. Rather than providing an opportunity for the transformation of the poor and unemployed, micro-enterprises act rather to perpetuate poverty and maintain those without formal employment in an extreme form of marginalisation. This was only broken in periods when employment was found which usually resulted in the enterprise stopping, since unlike PCP enterprises there was limited access to household labour. However they would typically be replaced by other unemployed people seeking to make a living through the operation of a survival enterprise and at a later date the original enterprise owner would re-start the enterprise when he had been retrenched or the temporary work had finished. The situation can therefore be characterised as one of dynamic stagnation in which a depressing cycle of enterprise start up and failure followed by formal capitalist employment (often temporary and menial) and redundancy is the norm. In addition for many women this lack of formal sector employment was exaggerated by the gender discrimination in the labour market; this tended to push many women into survival enterprises due both to their more limited access to employment and their lower pay for any employment that was found.

In the absence of employment opportunities and external finance the only options remaining to many survival enterprise owners were either to increase the equity in the enterprise or reduce their financial needs. Although partnerships offered a means of increasing the equity available it would appear that the informal nature of the agreements and the limited finance available restricted the ability of enterprises to grow. In the same way the options for reducing financial needs would appear to be much more limited for survival enterprises and may actually perpetuate their marginalisation. For example customer credit, while providing an opportunity to increase turnover for many capitalist and PCP enterprises, was a serious drain on many survival enterprises through the creation of a cycle of poverty (Chapter 9). Survival enterprises with limited finance resorted to providing credit in the hope of increasing turnover, but were often forced as a result to provide credit to less credit worthy customers. This leads to problems of late repayment of credit and defaults, which reduce the cash available for new stock, a stagnation or decline in turnover and hence a continued shortage of finance. The result is that survival enterprise owners who are the marginalised within the economy and themselves excluded from the majority of financial options are often the providers of consumer credit to the unemployed and temporary workers of the labour market.

The implication of this is that survival enterprises are continually in a state of extreme financial shortage which given the fungibility of household and enterprise finance means that in periods of financial shortage in the household enterprises either decline or stop trading.

In conclusion the evidence supports the hypothesis that in a situation of scarce finance the financial options available to micro-enterprise owners lead to their increased marginalisation, but not necessarily to the creation of disguised and dependent forms of employment.

11.2.3 Hypothesis 3: Improved access to formal finance is only available to micro-enterprises which complement rather than compete with formal capital.

Hire purchase, predominantly for refrigerators was identified as the main source of external finance available to micro-enterprises in Cato Crest (Chapter 10). The other alternative source of formal finance was from the banking sector, but while a high proportion of enterprise owners held bank accounts there was only one case of a enterprise owner gaining access to a bank loan. Hire purchase was not only an important source of finance for many micro-enterprises but was

strongly associated with the growth of PCP enterprises into capitalist enterprises. However its role needs to be seen within the context of the wider economy.

The provision of hire purchase finance for informal settlement residents, including micro-enterprise owners, provides an increased market for the products manufactured and sold within the capitalist sector. Such finance is therefore complementary in that it benefits both the micro-enterprise owner and the capitalist sector.

Hire purchase finance which is provided mainly by the retail sector is a function of the close alliance between it and the banking sector. In the case of HP for refrigerators, which has been the primary focus in this thesis, an alliance between the retail and banking sectors allows finance to be provided by the retail sector. In contrast the banking sector has taken the lead in providing finance directly to customers in the taxi industry (Khosa 1994a).

Finally an examination of investment options for micro-enterprises seeking to buy refrigerators reveals that while access to finance through a hire purchase facility is beneficial to the enterprise it may not be the optimum choice for such enterprise owners. HP is only available for the purchase of new refrigerators, and not second-hand ones. For a micro-enterprise owner with limited cash his options are either to sign a finance contract and pay instalments reflecting the cost of a brand new product including interest and other charges, or to continue to use ice blocks. The purchase of a new refrigerator results in a higher fixed to variable assets ratio and capital to labour ratio than would have been preferably chosen.

This thesis has demonstrated that in the case of provision of hire purchase finance of refrigerators it is the manufacturers and retailers who have been the main beneficiaries. While micro-enterprises have benefited from such provision there has also been a detrimental affect on both fixed to variable assets and labour to capital ratios. The needs of micro-enterprises would therefore appear to be subordinated to the needs of the formal capitalist sector and hypothesis three has been accepted.

11.2.4 Hypothesis 4: Informal financial institutions are subordinated to the needs of capitalist sector.

Stokvels were identified as being a major informal financial institution in Cato Crest. They are mainly a savings institution although a secondary credit function was identified (8.3. and 8.4). However in South Africa it would appear that while there are benefits to the saver from membership of stokvels the primary beneficiary of stokvels is the formal capitalist sector. This sector, through the banking sector, ensures a flow of finance from informal settlement residents, including micro-enterprise owners, to the capitalist sector. Finance is then lent by the banking sector to capitalist enterprises for their continued development.

This needs to be contrasted with the very limited external finance available to micro-enterprises. Only four cases were identified of loans from the formal financial sector and only one of these was directly from the banking sector. It should further be pointed out that two of these loans were in part influenced by the researcher who gave information about sources of such finance to the enterprise owners.

The development of stokvels as informal financial institutions has been significant in developing the savings capacity of poor communities and in Cato Crest membership would appear to have played a role in assisting micro-enterprise owners in being able to either grow into PCP

enterprises or capitalist enterprises. However when examining their role within the wider economy it would appear that stokvels act to transfer financial resources from poor communities to banks in the formal capitalist sector. It is therefore the alliance of the banking, retail, and manufacturing sector within the capitalist sector that is the main beneficiary of stokvels.

Stokvels, which have been recognised in South Africa for a long time as a form of empowerment for the poor and particularly the African population (Lukhele 1990), are therefore in reality a means of transferring resources from finance scarce environments, like Cato Crest, to the more finance abundant capitalist sector. Hypothesis four, that informal financial institutions are subordinated to the needs of the capitalist sector, is therefore accepted.

11.3 Implications of the research findings for micro-enterprise development

11.3.1 Micro-enterprise development and its subordination to the formal capitalist sector

Throughout this thesis the role that finance plays in linking micro-enterprises and the formal capitalist sector has been stressed. This is one of the strengths of the PCP analysis (Moser 1984) in that such relationships can be clearly identified and incorporated. This research with its particular focus on the role of finance in the process of conservation and dissolution of petty commodity production has provided three insights into the relationship between PCP and formal capital which had not been previously identified. These were those of formal employment, the banking sector and hire purchase.

11.3.1.1 Formal employment and petty commodity production

The status of the formal labour market and its potential to grow or contract has serious implications for the development of the micro-enterprise sector. Formal employment (Chapter 7) has been seen to be closely associated with the process of growth in micro-enterprises in Cato Crest. It would appear that the opportunity for waged employment, particularly full time employment, facilitates micro-enterprises in their growth into PCP enterprises or capitalist enterprises. Therefore capitalist and PCP enterprises are not the home for the unemployed. They are rather a function of both the past and the present formal labour market. In contrast those searching for employment or working in temporary employment are associated more with survival enterprises and for them micro-enterprises do not offer the panacea for their problems or any particular hope for a future. Rather as the word suggests they are likely to remain as survival enterprises or as this research has shown be increasingly marginalised and fluctuate between such enterprises and temporary waged employment..

This links between the formal labour market and micro-enterprises can be seen in terms of the operation of these two continuums of employment. Owners are identified as being part of a continuum of formal sector waged employment and at the same time as owners of micro-enterprises in a continuum of classifications of enterprises (Figure 11 2).

Figure 11.2 Dual continuum of employment

Unemployed job seekers, temporary waged employment and domestic employment	Full time formal employment	Non job seeking unemployed
Survival enterprise	PCP enterprises	Capitalist enterprises

There is therefore a link between the employment of the owner and the classification of the micro-enterprise. The links are not exact (see dotted line), but this in part reflects the nature of the process. The unemployed job searchers and temporary waged are more likely to be involved in survival enterprises. As owners continue in temporary work or in particular move into full time employment their enterprises are more likely to grow from survival enterprises into PCP enterprises and capitalist enterprises. Capitalist enterprise owners, having established their enterprise, are then likely to look to move out of formal employment through their own choice in order to concentrate fully on their business.

This provides a useful clarification of the relationship between formal employment and micro-enterprise ownership. However it needs to be understood within the context of other factors that will influence the enterprise, the enterprise owner and the household and therefore may distort this picture.

11.3.1.2 Finance institutions and petty commodity production

Secondly the use of stokvels and bank accounts has been observed to be associated with the growth of micro-enterprises (Chapter 8). It would appear that both provide an opportunity for enterprise owners to save both for investment purposes in the enterprise as well as providing finance for planned and unplanned household expenditure. However this thesis has demonstrated that such savings facilities are subordinated to the needs of the formal capitalist sectors. As a result the finance sector is able to transfer savings from micro-enterprise owners to the formal capitalist sector.

11.3.1.3 Hire purchase and petty commodity production

Thirdly hire purchase has been associated with the process of growth of PCP enterprises into capitalist enterprises (Chapter 10). The purchase of equipment, such as refrigerators, through the use of hire purchase finance has been identified as being closely associated with the growth of enterprises into capitalist enterprises. However this thesis has demonstrated that the use of hire purchase is primarily to the benefit of the formal capitalist sector which provides such finance and which benefits from the sale of new equipment on hire purchase.

These three relationships are important in understanding the development of micro-enterprises. In particular it would appear that the link between formal employment and micro-enterprise ownership reinforces rather than reduces income inequalities. In South Africa it would appear

that those who because of the nature of the economy are structurally unemployed are likely to remain in such a marginalised state when they seek alternative employment through the development of micro-enterprises. In contrast those with formal employment are more likely to own capitalist enterprises, which typically have higher profit levels than survival enterprises. In such cases the informal sector may well contribute towards income inequality and not necessarily lead to a redistribution of income as the ILO (1972) has claimed.

11.3.2 Petty commodity production and the development of micro-enterprises

A clearer understanding of micro-enterprise development and the distinction between capitalist, PCP and survival enterprises provides a useful insight for policy makers and development agencies seeking to develop strategies for self employment and the micro-enterprise sector. In particular rather than viewing micro-enterprises as one homogenous group the impact of programmes can be differentiated. For example, a programme that seeks to provide larger sums of credit to existing micro-enterprises may well end up only benefiting capitalist enterprises that will typically have access to such loans. However it may also have a negative impact on both PCP enterprises and particularly survival enterprises, which are likely to be increasingly marginalised by such programmes through the growth in market share by capitalist enterprises in markets which are often limited.

Programmes targeted at micro-enterprise development therefore need to have much clearer objectives in relation to the types of micro-enterprises they are seeking to develop as well as an understanding of the implications of such programmes on other micro-enterprises. For example, the Grameen Bank, which is heralded as a very successful financial institution for providing loans to the poor and landless (Hossain 1988, Otero and Rhyne 1994), needs to be seen in the context of primarily creating and maintaining PCP and survival enterprises, many of which will have very limited capacity for growth into capitalist enterprises.

Therefore a programme goal could be limited to the development or support of micro-enterprises which are characterised by such a state of dynamic stagnation. While the support of enterprises which would appear to have limited growth potential may appear to be a questionable goal, since it would appear to be condoning such poverty, it needs to be seen in the context of an economy which is structurally unable to deal with the employment needs of its population and therefore the maintenance of micro-enterprises characterised by dynamic stagnation could be a valid policy objective.

11.3.3 Hire purchase a source of finance for micro-enterprises

The identification of hire purchase as the major source of external finance in Cato Crest provides an important discovery in terms of micro-enterprise finance. Hire purchase is rarely mentioned in the literature on micro-enterprise finance which has limited its attention to formal finance from the banking sector. This research and preliminary research in Amoati (Reynolds 1995) identified that hire purchase was the main form of external micro-enterprise finance available and used by micro-enterprise owners in South Africa.

Hire purchase offers an opportunity for micro-enterprise owners to purchase a limited range of equipment for use in their enterprise. While certain drawbacks have been identified in particular to its restricted use (new products and not second hand) and its effect on micro-enterprise asset and labour to capital ratios it would appear to play an important role in the process of

accumulation and growth into capitalist enterprises. Despite these limits it would therefore appear to be an important source of finance that has in the past been neglected or ignored by researchers and policy makers.

As the search for new methods of finance continues (Otero and Rhyne 1994) it would appear that hire purchase offers the potential in some countries for a system of finance to which a significant proportion of micro-enterprises can have access, using institutions which are commercially based and viable and which can operate on a national scale. It is therefore an important form of micro-enterprise finance worthy of more study.

11.3.4 The hire purchase approach to finance as an alternative form of micro-enterprise finance.

Hire purchase does not operate exclusively for micro-enterprise owners; rather it provides finance for the purchase of equipment for consumers and hence micro-enterprise owners being consumers have access to it. Such hire purchase provides sufficient profit for the retailer who provides the HP for him to continue to offer such a facility and enables the micro-enterprise owner to purchase assets at a relatively low cost.

The success of HP finance is that decision making is based primarily on an assessment of credit-worthiness via trade references. These can be checked very quickly at minimal cost using the well developed computerised data bases developed for credit transactions in the South African retail sector. Such screening is combined with the threat that failure to repay the instalments will lead to a loss of future credit not just with this retailer, but with all retailers. Since South Africans, particularly amongst the poorer communities, use credit to purchase a wide range of products including clothes, furniture and footwear this provides a valuable incentive to repay such debts. This is reinforced by the option to repossess assets provided on hire purchase if the agreement is broken; however it would appear that this rarely happens and therefore plays a secondary role to screening.

The decision to offer credit is therefore not based on an assessment of the enterprise and its profit but rather on the credit worthiness of the customer (11.3.3). It is therefore the person and not the enterprise that is the critical point. The hire purchase approach offers a relatively low cost means of assessing clients and effective enforcement of debts through the threat of the loss of future credit. HP could be extended to the financing of other assets including second hand equipment where a clear legal threat to repossess could replace the more cumbersome formalised loan agreements used in many micro-enterprise finance programmes.

In certain condition it could be extended to the financing of working capital. This would appear to be possible where a well developed formal sector uses computerised data bases for credit transactions and where the majority of the population is part of the formal retail market and therefore uses consumer credit to purchase a variety of products sold by that retail sector.

11.3.5 Micro-enterprise finance: a broader view

Much of the literature on enterprise finance has tended to focus exclusively on credit (Otero and Rhyne 1994); this research has demonstrated that a broader consideration of finance is needed. In so doing a number of dimensions have been developed which although not original have tended to be neglected.

Firstly household finance and the issue of fungibility play a critical role. The contribution of the household to the enterprise as well as the demands the household makes on enterprise finance need to be considered. In addition the thesis has identified the important distinction between 'one off' household contributions to enterprise finance and regular flows of finance from the household. 'One off' household contributions, while potentially involving larger amounts of money, may have a more limited influence on the ability of micro-enterprises to grow than more regular smaller contributions. This observation also has important considerations for credit provision which is often assumed to be of a 'one off' nature when in fact enterprise owners need a continual flow of credit over a number of years.

Secondly savings play an important role in determining the ability of micro-enterprises to grow. Savings are often viewed as the forgotten part of financial intermediation (Vogel 1984) and would appear to be important not just for the banking sector in enabling it to on-lend, but also in providing financial resources for the owners to make larger investments in their enterprises.

Thirdly it is the dynamic interplay of various sources of finance including own finance, savings, external finance, household finance and finance saving measures which determines the eventual net flow into the enterprise. Finance programmes cannot ignore these different dimensions or assume them to be fixed over time when dealing with micro-enterprises.

11.4 Methodological implications

The development of an appropriate methodology to answer the research questions has in itself proved to be an important part of the research and in three areas has added to the understanding of research into micro-enterprises. Firstly the process of applying theoretical terms to practical field research has added to the knowledge of how a PCP framework can be used on a less abstract level. Secondly, while not original the results of the longitudinal study comprising semi-structured interviews and especially occupational biographies brings the efficacy and appropriateness of questionnaires into question and shows the richness and central role that such approaches play when seeking to understand the development of micro-enterprises. Finally the relationships between the enterprise, the owner, the household and the owner need to be incorporated in any study.

11.4.1 Theory and practice of field work

The approach taken by this thesis has been to seek to apply to the real world a theoretical framework that explains the informal sector. Theoretical terms are by their nature abstract and therefore the first task is to transform them into usable concepts while still maintaining their essential theoretical character. Much of the debate and use of a petty commodity production framework, in spite of the contributions of some researchers (Le Brun and Gerry 1975, Forbes 1979, Birkbeck 1978 and Middleton 1979), has tended to ignore the development of operational characteristics. The result has been a degree of uncertainty and suspicion as to how petty commodity production should be applied at the individual micro-enterprise level. This research has attempted to operationalise two main theoretical concepts: petty commodity production and the process of conservation and dissolution.

The first of these was tackled by the creation of three classifications derived from the review of literature; capitalist enterprises, PCP enterprises and survival enterprises. A number of distinctive characteristics were isolated (Chapter 3.3.) to enable the researcher to classify individual micro-enterprises during the field work. The division between capitalist and PCP enterprises was based primarily on the distinction between paid and family or owner employment. Capitalist enterprises were those where the enterprise owner took on a management role as well as working in the enterprise. Where employment in the enterprise was unpaid then the enterprise was classified as a PCP or survival enterprise. This proved to be a fairly robust definition although on a number of occasions the distinction between family and paid labour was rather blurred and needed further clarification.

The distinction between PCP and survival enterprises was less clear. In an economic situation in which the majority of micro-enterprises are operating in a dependent relationship with the formal sector marginalisation is to some extent a question of degree rather than an absolute. A variety of characteristics were developed from the field work (particularly from the preliminary field work in Amoati) in an attempt to characterise marginalisation. These proved to be fairly accurate although an exercise to test the subjectivity of the classifications (3.6.8) found a 15% error in classifications when a different researcher used the characteristics to classify the micro-enterprises based on information from the initial interviews.

It would appear that in the majority of these cases error was due to the limited information obtained from the initial interviews. But even with a reduction in the error due to additional interviews it is likely that there will be some cases where the distinction between the two categories is rather blurred. However since the purpose of this research is to identify trends and changes in micro-enterprises it is likely that changes will lead to a micro-enterprise moving out of the blurred area as its characteristics reflect more clearly one or other of the classifications it is changing into. Therefore in cases where the technique is being used to understand the process of change it would appear to stand up to adoption by different researchers and therefore the question of subjectivity in using the classifications is minimised.

The second theoretical term was the process of conservation and dissolution. To deal with this the terms growth and decline were used to reflect changes in classification of enterprises between capitalist enterprises, PCP enterprises, and survival enterprises (Chapter 3.3). The results of these changes were then aggregated to indicate whether conservation or dissolution had taken place with regard to petty commodity production. While the terms conservation and dissolution refer to whole economies and therefore are not in the purest sense valid when looking at the micro level of a small community like Cato Crest it does provide an indication of which process is at work. However the use of aggregate figures on their own need to be interpreted with caution since they only provide any indication of how PCP enterprises have been conserved and do not define how they relate to the capitalist sector.

11.4.2 Longitudinal studies and micro-enterprise research

The methodology used in this research has been to combine both questionnaire interviews with semi-structured interviews, participatory observation and occupational biographies. However the emphasis has been on the latter three methodologies. The research has demonstrated that the complexity of micro-enterprise development and its dynamic nature necessitates an approach that allows changes over time to be studied and a combining of methodologies to ensure that different dimensions of micro-enterprises are identified and understood.

Research has often been very static relying on a snap shot of micro-enterprises at a point in time (McLeod 1980, House 1984). This research questions the limits of such research and suggests that a longitudinal approach to such study is needed. Although due to change in the research area (Chapter 4) the research period was only ten months it did provide an adequate period in which to observe changes and the dynamic nature of micro-enterprises in Cato Crest.

Occupational biographies compensated for the reduction in the time frame and also allowed a more longitudinal understanding of enterprise development by providing a clearer explanation of how individual enterprise owners got to their present position. Two points need to be made with regard to the use of occupational biographies. Firstly the development of a number of occupational biographies, in this case twelve, allowed for a degree of comparison between different classifications of micro-enterprises. Secondly it proved easy to combine occupational biographies with semi-structured interviews. Longitudinal studies over a ten month period using semi-structured interviews of enterprise owners every month to six weeks provided an ideal opportunity to add the additional dimension of developing an occupational biography. A complete history was not told in one visit or in a consistent order and therefore the combining of these two approaches proved to be complementary.

Finally it is clear that a questionnaire based study and indeed any research that does not involve significant personal engagement with the enterprise owners and their environment, is very unlikely to provide meaningful results. Two particular problems were identified. Firstly micro-enterprise owners typically have very limited financial information about the enterprise and few kept records. Also there is a suspicion that the interviewer is seeking to gain information about the income of the individual to use against that person. These two problems were exaggerated by the historical situation in South Africa where anyone from outside, particularly if he was white, was viewed initially with suspicion (it was interesting to note that outsiders who were black South Africans were also viewed similarly). To resolve this the approach of combining methodologies was used. While this was costly in terms of time and energy it would appear to provide a much clearer picture and understanding of micro-enterprise development than other more distant and quantitative techniques.

11.4.3 The dynamics of micro-enterprise development

Too often the focus of research has been on the enterprise and has excluded the owner. Age of an enterprise is considered an important factor in its development (McLeod 1980). However this research has shown that the enterprise should not be considered in isolation and data on age should be combined with information such as how long the owner has been involved with micro-enterprises and how many micro-enterprises he has owned. This research has also illustrated the important role that such a history has in providing finance for the present micro-enterprise and enables consideration of household expenditure as well as various sources of alternative employment by the owner or the household members. Past history has been shown to play a key role in determining the present form and nature of micro-enterprises. The accumulation of capital is therefore not just a function of the present day performance of the enterprise, but equally a function of the past employment and types of enterprises owned.

Such an understanding is not just critical for micro-enterprise research; it is also important for programmes and policies designed to assist micro-enterprises. In an increasingly unstable world where people move whether as refugees, displaced people, or migrant workers an understanding of past employment and enterprises owned is central to understanding both skill levels, experience and possible levels of finance that enterprise owners may have. The accumulation of capital is

therefore not just a function of the present enterprise, but also of past micro-enterprises, employment and contacts within the local economy and community.

Placing the enterprise owner in a more central role in research is also important in terms of understanding the nature of petty commodity production enterprises. The role of issues such as rituals, religion and violence on micro-enterprise development are influenced by the enterprise owner and cannot be divorced or ignored in any analysis of enterprises. In the case of PCP enterprises where non-capitalist values play a significant role this becomes even more important. Death in the household, the curses of sangomas, theft, and family obligations all played a role in the decline of micro-enterprise in Cato Crest and therefore cannot be ignored. For example, an enterprise may have the potential to grow in terms of the financial options identified in this thesis, but if the owner believes the enterprise has been cursed then his finances will have to be spent on a sangoma to protect him from that curse or he will have to move somewhere else. This does not fit modern views of enterprise development, but does more clearly reflect the reality of life in a poor urban community in South Africa.

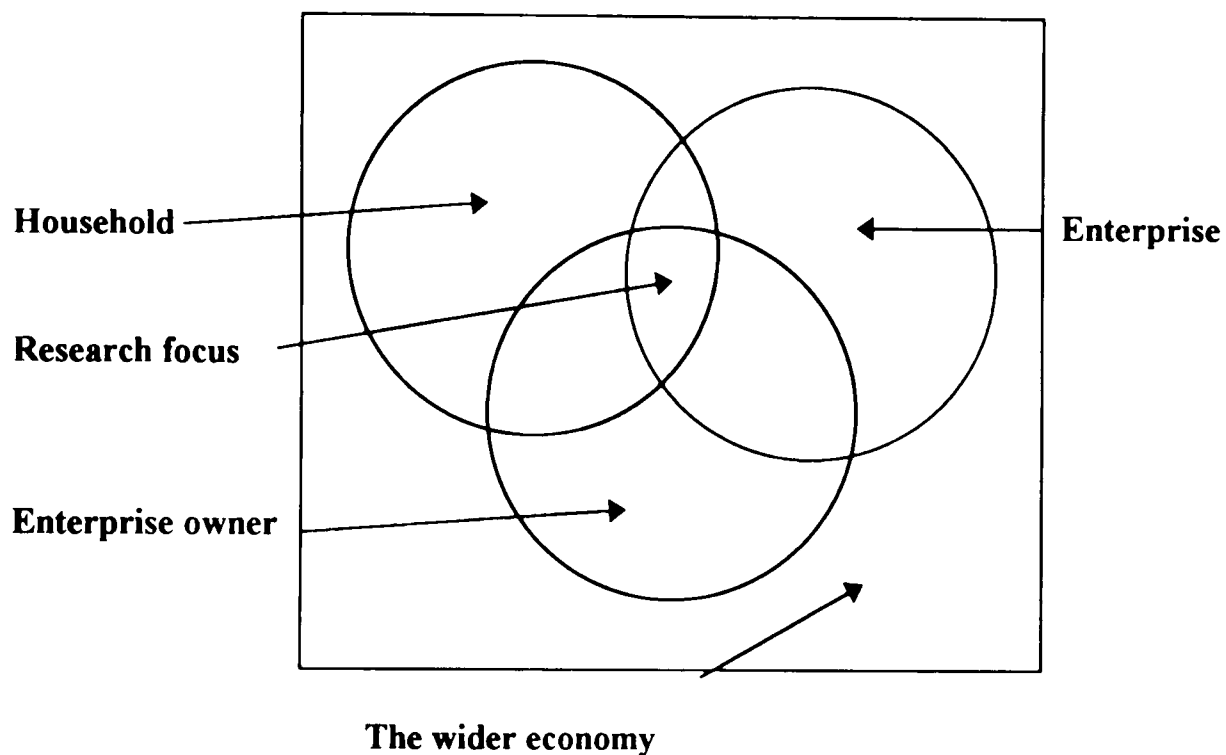
11.4.4 Micro-enterprises, enterprise owners, households, and the wider economy

As well as incorporating the role of the wider economy into the analysis of micro-enterprise development the approach taken in this research has been to recognise the importance of both the enterprise owner and household members as well as the wider economy as components of such studies. Research has often concentrated on or restricted itself to the characteristics of the micro-enterprise itself such as age of enterprise, type and levels of profit. While this is important the role of household members the enterprise owner and the wider economy need to be included (Figure 11.3).

- The use of occupational biographies (11.3.2) has demonstrated the central role of the enterprise owner in the development of the micro-enterprise. However it is not just the history of the enterprise owner that is important. Issues such as rituals, religion and violence all influence the enterprise owner and as a result influence the micro-enterprise. They cannot be ignored or the enterprise owner restricted to acting as the imaginary economic man. This is especially the case for PCP enterprises which are characterised by a mix of exchange and non-exchange values which however bizarre to a western mind set cannot be dismissed.
- The household is critical to any study of micro-enterprises. Consideration of the household should go beyond immediate household members to the extended household and rural dependants. Typically household and enterprise finance are not separate and therefore changes in planned and unplanned household expenditure will have effects on the enterprise through the withdrawal of funds to meet such demands. For example, David (interview 58) had a growing PCP enterprise and a formal waged job but his enterprise stopped in the middle of the research period. This was not due to any problems with the enterprise owner or the enterprise, but rather he was asked by his family to provide bail money for a cousin to be released from prison. This used up all his stock and savings and forced him to close the enterprise. Households also provide finance for the enterprise whether through start-up capital or regular flows of income into the enterprise from household members.
- Finally as this thesis has continually demonstrated the links between the formal capitalist sector and micro-enterprises need to be understood. This research has focused on the financial linkages but as other research has shown other forms of linkages such as those involving disguised and dependent employment are also important.

Research therefore needs to include consideration of the enterprise, the owners beliefs and culture the role of the household and the wider economy. While the emphasis will reflect the purpose and nature of the study it is important that in all cases some recognition of these four areas is included.

Figure 11.3 The role of the enterprise, the owner, the household and the wider economy in research



11.5 The implications for micro-enterprise development in South Africa

During the period of the research South Africa has undergone a period of historic change with the election of its first democratic government. However it has still to come to terms with the effects of over forty years of apartheid legislation.

The vast majority of people within South Africa, particularly within the black community, are likely to remain excluded from full time waged employment due to the state of the formal capitalist economy and the affects of apartheid on education and skills development. This means that many will be seeking work in the 'informal economy'. This research has demonstrated that it is unlikely given present conditions for the majority of these people who are marginalised from the labour market and who own limited assets to operate anything other than survival enterprises.

Research and policy development needs to be targeted at how finance on a credit basis can be made more widely available to enable survival enterprises to grow into PCP enterprises. At present the majority of enterprises do not have access to external finance from either the formal banking sector or the development agencies. A failure to address this will lead to the continued marginalisation of a sizeable proportion of the population and the likelihood that the only people who will benefit from the development of micro-enterprises are those with sufficient resources from full time waged employment.

Such a policy will not tackle the inherent structural problems in South Africa, but will enable a larger proportion of people excluded from formal sector employment to earn a regular income from the ownership of PCP and capitalist enterprises.

How such credit programmes can be developed and how they can be implemented on a scale to make an impact are issues that are outside the scope of this research. However by identifying the very limited nature of trade credit and the important role of hire purchase in micro-enterprise finance this research has provided two examples of possible areas for exploration in regard to this issue.

Micro-enterprises have been discriminated against or at best ignored by previous regimes. In a post apartheid South Africa there is hopefully a greater awareness of the marginalised and it is hoped that this study will contribute to a greater understanding of the needs of micro-enterprise owners and how policies can in the future be more effectively targeted to assist them.

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Appendix 1: Occupational biographies

Interview 9

Background information

Classification: Survival enterprise to PCP during the research period

Gender: Female

Type: Spaza shop

Interviews June (94), Aug. (94), Nov. (94), Jan. (95), Feb. (95)

Age of owner: 33

Children : 4 (born in 1980, 1983, 1984 and 1993)

Marital status: Widowed

Occupational biography notes

1961 Born in Midlova near Pietermaritzburg

1968 First enterprise (survival). She was selling amaguinia for children at the school she attended.

1977 Left school at Standard 5.

1977-84 Second enterprise (survival). Continued to sell amaguinia outside the school gates. She would also go to the sports events to sell drinks and amaguinias. e.g. Kings Park Sports Stadium. During this time she was married and this restricted her ability to travel any distance.

1984 Her husband died; she was then able to travel to Maputo to sell goods there.

1984-89 Third enterprise (survival). She bought second hand clothes and sold them in Maputo. Stock was bought for about R200 and resold for R400 to R500.

1989 Left Midlova for Folweni.

Fourth enterprise (survival). Started a spaza shop similar to her present enterprise. Her mother lent her R50 to start the enterprise.

1990 Violence in Folweni and so moved to Cato Crest.

Initially there were few people in Cato Crest; the government tried to move them and destroyed their shacks. Eventually the whole population were allowed to live in tents. Many families lived in this one tent to start with. Later they were given tents by NPA.

1993 Fifth enterprise (survival). Started selling door to door from 8am to 4pm in Cato Crest. She estimated that she sold R30 a day since there was little competition and the local spaza shops mainly sold dry food products bought in town.

She had been a member of a stokvel with five other people for some years. They each put in R10 a week and they rotated it each week so that every five weeks she received

R50 for her enterprise. This money she used to buy new stock. She did not save with a bank since there was not enough money being saved to justify the expense of a bank account.

- 1994 Sixth enterprise (survival) She set up her own spaza shop. Initially she had very little stock, but over time she was able to accumulate some capital and it began to grow. The building was built from scrap material next to her house. It cost R150 and she also used money invested from her previous enterprise. Her parents lived with her and they both had pensions which helped the household finances. In addition she rented out a number of rooms next to her home and the spaza. These earned her additional money which she estimated to be between R100 and R150 per month.

Research period

- 1994 Seventh enterprise (PCP). It has developed a little and had built up a stock of R250 by December 1994.
- 1995 Eight enterprise (survival). Over Christmas the enterprise lost a lot of its stock and she only had R100 left by the end of January. There is a big problem with credit since she has a stock/credit ration of only 4:3. She continues to sell vegetables but mainly at the weekend when there is more demand. She has 4 children three at school. This problem was compounded by illness which meant that she was often forced to close the enterprise during the day in order to visit the hospital and with the children at school there was no one around to look after the enterprise.
- 1995 Ninth enterprise (PCP). The enterprise slowly began to accumulate stock again as she faced less problems with health and was able to invest stokvel money in the enterprise.

Interview 18

Background information

Classification: PCP to Capitalist enterprise

Gender: Male

Type: Spaza shop

Interviews: June (94), Aug. (94), Oct. (94), Nov. (94), Dec. (94), Jan (95), Feb. (95), March (95).

Age of owner: 47

Children: 2

Marital status: Married

1948 Born in Showe (Northern Zululand) and went to school there.

1957 Left school at the age of nine as his father said he had to look after the cows.

1964-66 At the age of 16 he came to Durban. A black African had to work for one year as a domestic before he could get a factory job and so he worked as a domestic. But in the first job he had he was fired after 11 months and so had to do another year. He was again fired and should have returned to Showe but he decided to stay illegally in Durban.

1966-72 Stayed in Inanda for six years and had various temporary jobs as well as working in a number of survival enterprises.

First enterprise (survival). He tried various enterprises during this time selling apples on the street and selling beer. But he was arrested and fined by the police maybe ten times during this period. The money to start each enterprise was given by his girlfriend who had a job as a domestic in town. He was also imprisoned during this time for selling goods and beer and his property was confiscated.

1972 He went back to Showe.

1978 Got a job in Westville and worked for 4 months as a domestic. He then went to Morningside for 8 months as a domestic.

1979 Worked for 11 months at a hotel in Durban.

1980 Worked at the University of Natal for three years.

Second enterprise (survival) Made and sold shoes and belts during this period in his spare time. He needed little capital to start this and could work at it while he was doing his security job.

1982-8 Worked for three years at the Natal Playhouse. This was his last formal job .

Third enterprise (PCP) During this period he brought a small car with the money from the work (a Chevy 25) and used this on his day off and at weekends as a pirate taxi

working from around Durban station. He also saved up enough money to buy a second hand combi van to drive.

1985-89 Fourth enterprise (PCP) tried to work on the roads when he had finished his job and worked from Inanda as a taxi owner/driver. He sold the Chevy during this time and brought a Toyota Hilux. The problem was that it was a second hand vehicle and often would break down and need repairing.

Fifth enterprise (survival). During this time his wife did some sewing to earn some money for the family. The sewing machine was bought on hire purchase while he was still working.

1989/90 The violence in Inanda caused him to stop the taxi enterprise. He feared that people would burn his combi van because of the violence. He therefore decided to sell the van and buy a small car (Datsun) to use as a taxi and at the same time to move from Inanda.

1991-93 Sixth enterprise (PCP) He decided to move to Cato Crest and at night drove the Datsun as a pirate taxi from Durban station to areas around Durban.

He did this for about three years and slept during the day. This was the period of the struggle to get permission for to stay in Cato Crest and this took a lot of his time. He was arrested and threatened with imprisonment since he was the Chairperson of the Crisis Committee.

1993 Seventh enterprise (Capitalist). This was his first spaza enterprise. Through his involvement with the Crisis Committee he was able to secure ownership of one of the first water kiosks in Cato Crest. He paid for the permission for a water kiosk and used this as a base for setting up a spaza shop. He employed a boy and a girl to run the kiosk and shop. His was one of the first water stands. He started with a start up capital of R400 which came from his taxi enterprise.

Eighth enterprise (PCP) He later built a second spaza shop which he operated at the same time as the first but was run by his wife. He continued the taxi enterprise until he was established in Cato Crest and then sold the vehicle. With the money he built his house and had enough to put a deposit on a refrigerator bought on hire purchase in order to sell cold drinks. He was able to arrange this because he knew someone at the furniture shop who assured the manager that Chris would pay, although this was not a formal guarantee.

During research period

1994 The two enterprises declined due to the competition from other micro-enterprises that were set up in Cato Crest. A neighbour said that the reason the enterprise stopped was that his wife was lazy and did not help him in the enterprise. He had no waged work at this point and so spent time repairing his house.

1994 Ninth enterprise (survival). He started up a capitalist enterprise cooking meat for the taxi drivers and owners near the taxi rank. He knew all the people and was able to get the land to start the enterprise. It earned him a little money at the time.

1994 Got a job driving a taxi for his friend Mr Ncemu which he could do at the same time as running the meat enterprise. But this job stopped when Mr Ncemu's taxi was stolen from outside his house in Umbilo.

1994 Tenth enterprise (PCP) He decided to go into partnership with Mr Ncemu who he has known a long time. Chris says that Mr Ncemu is old and honest and so he thinks they can work together. Before he has been on his own but now he will try to work with someone else. Since Mr Ncemu had lost part of his income through the loss of the taxi he thought that this would provide additional income for him with only minimal outlay.

They each put in money at the beginning to build the rooms. It cost R800 and most of the money came from Mr Ncemu but Chris put most of the labour into the enterprise. He laid the cement floors and built the walls of the new shop. He also provided the refrigerator for the enterprise from his house. He is still paying off the instalments. They then each put another R600 into the enterprise for the inside materials . The finished shop now has two rooms and a porch and is considerably larger than the original stall.

1994 He got a job driving with another taxi owner and is paid R300 a week for this job, but it is long hours and means that he can only work on Sunday in the enterprise and in his spare minutes during the driving. Mr Ncemu spends most of his time with the enterprise when Chris is away, but does not work on Sunday.

1995 Eleventh enterprise (capitalist) They have decided to employ a lady to do the cooking in the enterprise because they are both working and they think the enterprise is starting to earn some money. Chris has managed to get a job as a taxi rank manager based at the taxi rank where the enterprise is located so both partners can manage the enterprise and keep an eye on the staff. He is now thinking of investing in an enterprise to clean taxis for the taxi owners from Cato Crest and other ranks in town.

Interview 40

Background information

Classification: Survival enterprise

Gender: Female

Type: Spaza shop

Interview: June (94), Aug (94), Sept (94), Nov (94), Jan (95), Feb (95).

Age of owner: 37

Children: 7 (born in 1981, 1983, 1985, 1988, 1992, and 1994 (twins))

Marital status: Divorced/widowed

Occupational biography notes

1958 Born in High Flats near Pietermaritzburg.

1973 Left school at the age of 15 having passed Standard 5.

1973-78 Had a 'stroke' and so could not work and spent a lot of time in a hospital in Pietermaritzburg.

1977 Moved from High Flats to Folweni.

1979 Married until 1990 when she was divorced. She has had no maintenance from her husband since he divorced her.

1982 First enterprise (survival) Started selling meat in the area. She would walk round with the meat on her head bought from a butchers knocking on doors to see if people wanted to buy. She stopped because there was little profit in this and her meat went off in the heat and so she often lost the money.

1986-92 Worked as a domestic for three days a week. This was her first formal job. Second enterprise (survival). She sold second hand clothes that she was given by the family she was working for as a domestic. She went to the rural areas where she sold them. She stopped work when she had another baby in 1992 and the family moved to Jo'burg.

1993 Moved to Cato Crest. Her second husband was killed during the violence in Folweni.

1993 Third enterprise (survival) Started a capitalist enterprise selling vegetables and drinks. Her mother gave her some money (R200) so that she could start the enterprise. She did not have to repay this money. She brought materials for her house from her place in Folweni. She tried to make a tuck shop from her spaza shop but because she had so little stock she decided to sell from outside her house on a table.

Research period

The enterprise stopped when she had twins and had to go to hospital.

1994 Fourth enterprise (survival) Re-started the enterprise again with some money from her family (R50). She survives on this money. She also gets some money from her mother

who sometimes gives her R100 when she cries to her. Started initially again with just vegetables and then increased to buying some drinks. She only has enough for one crate of beer and one of ijuba. When these are finished she buys another.

She buys the materials in the town in the market and the drinks in Cato Crest from the local wholesalers. She is unable to save since she has so many children. All she does is save enough from the income to buy the next stock. She tends to buy every few weeks when she has sold enough and has money to buy new stock.

Stock varies but slowly has increased from R50, R72, R68, to R117 since August 1994. She has to give credit and this is about 25% of the stock value.

She does not have a husband but there is some help from family members which supplements her money from the enterprise.

Interview 54**Classification:** PCP enterprises**Gender:** Male**Type:** Spaza shop**Interview:** June (94), Sept. (94), Sept. (94), Oct. (94), Nov. (94), Dec. (94), Jan (95), Jan (95), Feb. (95) March (95)**Age of owner:** 39**Children:** 3 (born in 1975, 1987 and 1989)**Occupational biography notes**

1956 Born in Grey Town (Mapamula area) and went to school there.

1971 Left school aged 15.

1971-73 He looked after the cows in the field on his family's farm..

1973-74 Worked in a tea room at Transport packing and selling goods.

1974 Came to town and worked for one year as a garden boy staying in Curry Road. Stayed in the house of the owner.

1975-77 Lived on an air base and worked in the kitchen for nearly three years.

1977 Worked for a short time at a nursing home near Umgeni Road.

1977-79 Moved to Inanda New Town "A" and worked during this time in various temporary jobs. "One month here and two months there like this".

1979-86 Lived in Inanda and during this time he had a number of temporary jobs. Three months here and six months there and the jobs were mainly in town. Temporary work was by going to town and looking round for work. He had a rented place in Inanda.

1979 First enterprise (PCP) Started by cutting down some sugar cane near Phoenix and selling it on the road in Inanda. From this he got approximately R32. With this he was able to buy some stock.

He then invested money in the enterprise selling cigarettes sweets and vegetables. He estimates that he was selling up to R150 per day. He had a stock of between R80 and R200 and managed to save R400 in the bank during this period. He bought stock from Ohlanga, the nearby wholesaler. He was not given and credit but he was allowed to pay C.O.D. It cost R6 to deliver the goods to Inanda. He bought between R60 and R140 or stock at a time.

However a nearby shopkeeper became jealous of his enterprise growing and taking his customers. The man sent his children to him to buy some cabbages and when they paid him the money the "money was bad money" and caused all the cabbages to go bad. This was because the man had used a sangama to put a spirit on his enterprise. So he decided to leave his work and sell everything. He had this enterprise for about one year.

He built up the enterprise step by step during this time because there were a lot of customers. His stock was bigger in the first enterprise than in his present one. This was despite the fact that when during the first enterprise he had no temporary work.

- 1980 Second enterprise (survival) He then moved to another place near Ohlanga High School and he started selling again. But this time he only had R40 to start up and he sold mainly vegetables. But he had a problem with his grandmother who did not like the people coming to the house particularly at the weekend. He did this for about 6 months and then stopped due to this problem.
- 1983 He had a permanent job for one year working in a construction company as an assistant for a quantity surveyor.
- 1986 Moved to Reserve Hill (Canaan) due to the violence in Inanda. Also he could own his own place by building a shack .
- 1986-89 Third enterprise (PCP) Started a few months after he had arrived in Canaan. He started with about R200 in stock. He also sold beer and drinks here which he had not sold in Inanda. The reasons for this was that he did not want to upset his friend who sold drinks nearby in Inanda. Used a refrigerator with ice for drinks.
- 1989-94 He got a permanent job with a moulding company. He banked from this time with the Perm building society. He would sometimes save money but then he had to spend it on the family or school.
- 1990 Fourth Enterprise (Capitalist and PCP) During this time he was working and so his wife worked in the shop. But for 3 months they employed a lady to work in the shop. She ran the enterprise for that period. But she stopped when she moved to another job. During that time his wife worked as a domestic.

There was a problem with living in Canaan since there was a lot of violence and noise. Canaan is near the N2 highway. People tried to break into their house and shop but they did not succeed. He continued to buy from Ohlanga. When he bought small amounts that he could carry home he would take it with him on the bus. In other cases he would get it delivered.

The enterprise went up during this period because he was working and so the stock increased. He had saved R800 during this time with the bank. However he said that he forgot during this time to buy a refrigerator on easy terms.

- 1993 Moved to Cato Crest. Originally he lived on one side of the road but then had to move to the other side due to NPA evicting him from the other premises.
- 1993 Fifth enterprise (PCP). He spent R512 on materials for this first house and used the front room for the enterprise. Originally he sold from his front room, but he felt the enterprise was too small.

His wife has a sewing machine and does a little bit of work, but this is more to supplement their income than any major source of income since there is little demand for her products. She mainly does small repairs for people.

Research period

1994 He later spent about R300 on building up the store with an extension and a tin roof on the front of his house.

The enterprise goes up and down due to the costs they face. For example her mother has been ill and so they had to kill a goat (R290) and 4 chickens in order that he can pray to his dead father. The problem is that they only make small orders and spend all the money on themselves and sending it to the rural area to their family.

The drinks are all paid cash and he buys the soft drinks through Ohlanga. He gets a good price for buying them there. But he has to buy the crates and empty bottles, costing R240 in stock which is 14% of the enterprise assets. However he is able to sell them fast and therefore makes a lot of his profit from this product.

He made a further investment in March 1995 buying some plastic sheeting to go on the roof at the front of the spaza in order that people can have some shade when they buy from him.

Information on financial details from semi-structured interviews

Interviews	5/94	6/94	9/94	9/94	10/94	11/94	12/94	1/95	2/95
stock	120	272	347	414	448	581	860	586	563
cash			48	126	45	23	117	75	190
credit			96	87	41	151	66	62	21
assets	120	762	981	1118	1078	1436	1803	1749	1800
stock/assets	1	0.36	0.35	0.37	0.41	0.40	0.48	0.33	.32
stock/ credit			3.6	4.7	10.9	3.8	13	9.45	27
stock/other variable assets			2.4	1.94	4.6	3.3	4.7	4.27	2.6
fixed assets		490	490	490	544	676	760	1025	1025
ratio fixed /variable assets		1.8	1	0.72	1	0.89	0.72	1.41	1.32
profit		70	219	137	-40	357	367	-54	50
total P		70	289	426	386	743	1110	1057	1107

Interview 55

Background information

Classification: PCP enterprise to survival enterprise

Gender: Male

Type: spaza shop

Interview June (94), Aug. (94), Aug. (94), Sept. (94), Sept. (94), Nov. (94), Jan (95), Feb. (95)

Age of owner: 38

Children: 4

Occupational biography notes

1957 Born in Howick.

1971 Left school with Standard 4. He had to leave after his mother died in order to get some money for the family. He left and went to Hamersdale to stay with his sister.

1971 Started to work and had his first job as a labourer in a textile factory.

1973 Got his license to drive.

1974-82 Worked in Pinetown working as a driver for Motor Valve.

1982-83 Driver for Wildman Leather for two years.

1984-92 Got a job with Cato transport.

1989-91 First enterprise (PCP) His wife had a tuck shop in Hamersdale and she worked in this. Zuma gave her R400 to start up the enterprise. The problem was that there was a lot of violence at this time and so the people would come to him and say they were hungry and ask him to give them bread or fish. The next day more people would come and ask for food. He decided he could not carry on like this and so the enterprise was closed.

1991 Divorced his wife but kept the children. He looks after all four children. He has another women but she keeps her money separate.

1991 Left Hamersdale and sent the children to Clairemont because of the violence and until he had built the house in Cato Crest. People took all his building materials for his house there and he lost maybe R3000 in materials.

1992-94 Worked in various temporary jobs during this time and these could be for two weeks or four weeks at a time but never permanent.

1993 Second enterprise (capitalist) Started a spaza shop in Cato Crest. He used the money from the job which finished in 1992. He spent about R600 on stock in two batches of R300. He employed a lady for the enterprise and he paid her R170 a month. The enterprise was 'too fast as that time' since there were few other tuck shops at that early

stage. He started with R200 of stock and he later put an additional R200 of stock into the enterprise.

He had a lot of stock at that time and most were fast turnover goods. For example he was selling 340 white bread loaves and 90 brown bread loaves in a week. With an average profit of R0.20 per loaf that works out at R82 a week on bread. He was also selling 200 litres of paraffin a week (R40 (profit) and 100 candles (R50 profit).

In 1993 he also bought a second hand refrigerator to keep ice in which he paid R200. The lady he employed in Feb. 93 he sacked in June 94 when the enterprise started to 'drop down a bit'. The main reason was the competition from other tuck shops.

Third enterprise (PCP). He buys about three times a week initially but later on it was much less. This resulted in the enterprise having a high cash to stock ratio. The main problems for the enterprise was that he was unemployed and so he could not improve the enterprise very fast and also there were few customers.

He bought from Macro when he got a card in June 93. Before that he used a friends card. When he was in Hamersdale he bought from a wholesaler in Isipingo.

School is very expensive and is a big drain on his resources. It costs him R400 for the school in Phambili and R45 a week for the bus fares for the other three children who go to school locally.

He belonged to a stokvel and last year he saved R2500 for investing in the school fees for this year and for the uniform. He also has a bank account but it would appear prefers to save this way. His wife is also a member of a stokvel but she uses her money separately. He thinks she gives it to her mother.

In 1994 he managed to get a loan from IBEC for R2000. He probably only needed R500 since he did not use most of the money on the enterprise. There were a lot of family problems at this time which meant he had to take out money for these uses. The result is that he has to take from the enterprise in later months to pay for the loan. He realised this problem and tried to pay off the loan quicker but they said this was impossible and so he keeps up the repayments. He is paying R300 a month.

They have stopped giving credit. This may explain why they have fewer customers but they had a lot of debt problems initially with about R200-500 in unpaid debt.

His wife works part time and at the end of 94 he managed to get a temporary job for a few months driving which earns him some good money since it was shift work. But with Christmas coming much of this was spent.

Information on financial details from semi-structured interviews

Interviews	1993	8/94	10/94	11/94	1/95	2/95	3/95
stock	300	900	1239	801	863	400	100
cash		302	936	1515	1200	462	50
credit		150	150	-	-	-	-
assets	300	2002	2975	2966	2713	2259	800
stock/ assets	1	0.45	0.41	0.27	0.32	0.17	0.125
stock/credit		6	8.26	-	-	-	-
stock/VA		1.5	1.14	0.52	0.72	0.86	2
fixed assets		650	650	650	650	650	650
ratio F/V		0.48	0.28	0.28	0.26	0.4	4.3
Profit		1402	-1027	-290	695	-454	-1126
total profit		1402	375	85	780	326	-800
Loan debt			2000	1700			

Interview 57**Classification:** Capitalist enterprise**Gender:** Male**Type:** Spaza shop**Interviews:** June (94), Aug. (94), Aug. (94), Sept. (94), Oct. (94), Dec. (94), Jan. (95), Jan. (95), Feb (95).**Age of owner:** 23**Children:** none**Marital status:** Married**Occupational biography notes**

1972 Born in Grey Town (Mapamula area).

1982-86 First enterprise (survival) While he was at school in the rural area he sold sweets at the school. He used the money he was given by his family for school for the enterprise.

1986 Finished school at Standard 5 aged 13.

1986 Second enterprise (survival) He moved to Inanda where his father lived and sold plastic bags in town. He started with R30 that his father gave him. He was 13 at this time.

1986-87 Third enterprise (PCP) He sold door to door in Inanda. He estimates that his turnover during this period was R200 per day. There were two other people (one a relative) in the house where he lived who did the same but separate enterprise. "It was a secret enterprise, but few police at that time". He sold cosmetics and earrings.

1987 Fourth enterprise (PCP) He stopped selling in Inanda and started selling from a table in town. He worked in two places in town, Cathedral Road and the Berea station. There was no fixed place since at that time it was illegal to sell in town and so the police would chase you if you were caught. But in June 1987 he lost all his stock + trolley (estimates R1500) when it was stolen from a lock up store.

1987 Rest of the year he went back to Inanda and did nothing. He had no work.

1987-94 Fifth enterprise (PCP). Started again with R100 lent to him by his sister. She lent him the money for three months and then he repaid the money. He sold glasses, curtain wire, plates etc. He sold from the table in the same two places. After 87/88 there was less police harassment but at the same time there was more competition.

1988 His mother died and he had to bury her. He therefore had to spend all his money. "He had to cover that money". It was near the end of the month and so had cash to buy. But this meant the enterprise went down.

The enterprise went up and down during this period, but he was getting a R100 in income. It was down when he had few customers and at the end of the month and at Christmas it was a good enterprise. From 1989 he joined a stokvel first in Ntuzuma and then in Inanda. He put in R50 a month and saved the money at the end of the year in a

bank account that his sister owned. He did not have an ID at this time and so could not get a bank account.

- 1993-94 Sixth enterprise (capitalist). He employed someone to work the table. He tried two boys working in this job (one after the other) but both times they "ate up his money". He paid them each R150 a month but he did not gain any money. He had a stock of R100-200 in cosmetics, but he found that they would steal his goods and each day he lost something. He stopped in August 1994 since there was no gain.

Research period

- 1993-94 Seventh enterprise (PCP). Started an enterprise in November in Cato Crest. He started with a stock of R500 from his old enterprise and from his savings. He lived in two rooms (cost R900 to build), but he used one room as the shop. He has a girlfriend who looks after the shop when he is out buying new stock. He continually increased his stock and rather than saving with a bank account he put all the extra money from the enterprise back into the enterprise. Most days he would buy new stock.

- 1994 His father died at the beginning of the year and so had to bury him this meant that he had little resources. He was a member of a stokvel and so he borrowed R300 and repaid after one month R375 (about 17% per month).

He saved with a stokvel last year and at the end of the year he had saved R900 which he invested in the enterprise.

- 1994 He bought a refrigerator on HP. The refrigerator cost R3538 but with all the costs it was R5324 (interest of R1094 (26%) and other costs of R692 17%). He also had to pay a deposit of 14%. He pointed out that he had to buy insurance to get the refrigerator on instalment terms. The total interest therefore of all costs works out at 48% per year. He is at present paying R250 a month which is above the instalment payment of R210.

The cost of using ice works out at R240 a month if two blocks of ice are purchased a day. But it does not include the cost of gas and the days when the refrigerator is unused. It would therefore seem that it would take over two years for the refrigerator to pay back. He invested in a new room for the enterprise during November. He built a room around his old bedroom and then knocked out the walls to have a store. The new shop room is much bigger and provides the shop with a porch (move towards a capitalist enterprise in appearance). he also built a small room for storage and a small room for people to sit and drink in outside.

- 1994 Eighth enterprise (capitalist). In December he employed his cousin to work with him in the shop. He has come from the rural area and is paid R200 a month and gets a place to stay in the shop. Note: It costs about R70 a month to rent a room.

Information on financial details from semi-structured interviews

Interview dates	11/93	8/94	9/94	10/94	11/94	1/95	2/95
stock	300	1241	1538	1396	1890	1806	2416
cash		38	126	62	224	100	28
credit		38	0	30	118	37	-
assets	619	1635	1982	6633	7127	6702	6953
stock/assets	0.48	0.76	0.78	0.21	0.26	0.27	0.35
stock/credit		32	-	46	16	48	86
stock/va		16	12	1.17	1.6	3.75	20
fixed assets	319	319	319	4052	4052	4415	4415
ratio F/V	1.06	0.24	0.19	1.57	1.3	1.9	1.7
profit		1016	347	176	446	-74	534
total profit		1016	1363	1539	1985	1911	2027
Loan				4827	4523	4023	3773

Interview 73

Background information

Classification: PCP-enterprise

Gender: Female

Type: Spaza shop

Interviews: Aug. (94) Sept. (94) Oct.(94) Nov. (94) Jan (95) Feb. (95)Feb. (95).

Age of owner: 56

Children: 5 born (1974, 1976, 1978, 1984, and 1993)

Marital status: Married

Occupational biography notes

1939 Born in Escourt.

1955 She left school at the age of 16 having reached standard 6. She went to school in Ndwedwe at a Catholic Mission school.

1955-70She then worked and trained as a nurse assistant at a local hospital.

1970 She was married in Escourt and stopped paid employment. She has not worked since then.

First enterprise (PCP). She bought a sewing machine on HP in order to work making and selling clothes. She is unclear what it cost but thinks that she paid a R50 deposit and then paid R20 instalments. But she is unclear how much it cost in total. She made clothes and sold them in Escourt. The income was not bad at this time since her husband also had a job and therefore her income supplemented his.

1974 First child was born and she stopped doing the sewing for a while. She was ill for a time and although she did some after this she was not able to earn much money.

1974-76Second enterprise (Survival). Started selling clothes/candles and matches.

Third enterprise (PCP and survival). This enterprise works if you have a lot of money. She says that it needs at least R400-R500 of stock to start with. When she sells goods she gets half the price paid in cash and gives the other half on credit until next time she visits the area. In this way you will have between R200 and R250 to buy new stock for the next time. There is a good profit from this enterprise and she could sell a mans shirt which she bought for R3 for between R5 and R6 i.e. a 80%-100% mark-up.

In Escourt she sold from her mother's home and people would mainly come to her house to buy.

The enterprise was "on and off". It was "off" because of shortages of money. They would often take the money to eat and buy soap etc. and then the enterprise would have no money. It was "on" when they gave credit to people and the money was given back. Also her husband would give money sometimes. She has a shortage of money to buy new

stock due to the children and school fees. These cost up to R500. The enterprise was "stop start but still going".

1976 Moved from Escourt to Umlazi (to find work for the husband). She started to sell paraffin, matches, and candles. She also sold clothes but went to Escourt to sell them from her relatives house. The 2nd hand clothes you can sell here, but it is more profitable in the rural area. The enterprise 'leaked' because they had to pay rent for the house in Umlazi. It was better at Umlazi since they only had two children and there were more customers. The stock went up but since it was a rented house they could not sell anything openly at that time. They were afraid of the owner of the house since he might not let them sell in his house.

1980 Fourth enterprise (PCP). Went to Malagaz (near Folweni). They had no spaza shop here since they were afraid of robbery and so they stuck to selling the second hand clothes which they could do in Escourt.

1981 Moved to Folweni

Fifth enterprise (survival) She and her husband set up a joint enterprise selling bananas and chickens. They started with R280 of stock.

Buy 20 chickens	R6 x 20=	R120
Buy 40 cases of banana	R4 x 40=	R160

The start up money was found from her husband's temporary jobs. The enterprise however stopped as the man who sold them the chickens moved away from the area..

Sixth enterprise: (survival) They then started to sell 2nd hand clothes again since this was a safer job to do. She sold in Folweni but she was unable to save any money.

1983/84 There was a lot of violence during this period. This affected the enterprise and people would steal all their goods.

1984 Her husband lost his job, because his employer went overseas in December and did not pay them their salary for that month and they lost the Christmas bonus (up to one month's salary). Since then he has not had any full time work. He has had to work in various temporary jobs. These are for one day or a week and he has to find the work.

1985 Moved from Folweni to Escourt. Seventh enterprise (survival): They had a small spaza shop and carried on the selling of clothes. The enterprise was okay but they only had between R20 and R50. But they had to pay for school fees and bus fares. Also there was not much work unlike Durban. It was a very difficult time for them. But they lived in her mothers house which meant it was rent free.

1989 Moved back to Folweni. It was "a little peaceful" but still violent. They had their own house there so went back hoping it would be better for them. Still selling 2nd hand clothes.

- 1991 Moved to Cato Crest for a few months but they had to fight NPA who stopped the people living there.
- 1991 Moved to Wiggins. Eighth enterprise (survival): Sold 2nd hand clothes only sometimes when they had money. They bought in the Berea centre and sold door to door and from their house.
- 1993 Moved to Cato Crest area B in January, but NPA destroy their house.
- 1993 Moved to Cato Crest. Set up a spaza shop.

Ninth enterprise (survival and PCP): They buy from Macro where they have got a card. This card cost them R200 to buy. They start up with R100 in Oct. 1993

Research period

- 1994 Closed the spaza enterprise due to having no money since they had to pay for school fees. She has to buy food and bus fares for the children and so she takes this from the enterprise and when there is not enough money the enterprise goes down. The enterprise then goes up when her husband has money to help the enterprise.

Tenth enterprise (survival): She tried to sell cement but this did not work since the cost of cement has risen from R15 to R20. She bought 20 bags at R13 and has sold them for about R1.5 profit each. But then with the cost of transport there was little profit in it. Transport cost R10.

Eleventh enterprise (survival): She borrowed R200 from a stokvel in Cato Crest to buy some clothes for selling. But the interest on this was R50 a month. This works out at 33% per month and so there was very little profit on this for her family.

Twelfth enterprise (survival): She joined with a group of other ladies (only one was employed full time) in order to produce cement blocks. They each contributed money and with that money bought a small cement block mould and some sand and cement. However while they slowly sold the blocks they were continually faced with problems in terms of buying the sand and cement. Their limited finances also meant that they had to buy ash from a local council truck to make the blocks. This did not produce as good a block as the cement blocks and therefore meant the price they could sell the blocks for was lower. The enterprise faced a variety of problems and there was a degree of mistrust within the group as to who was in charge of the money and how the limited profits should be shared out amongst the members. These problems and the difficulties of getting supplies and selling the blocks eventually lead to the group collapsing.

- 1995 Thirteenth enterprise (PCP): Her husband got a full time job and the additional household money meant that the enterprise was able to re-invest the profits back into the enterprise and it was therefore able to accumulate.

Information on financial details from semi-structured interviews

Interview dates	10/93	1/94	9/94	10/94	11/94	1/95	2/95
stock	100	-	201	60	70	163	108
cash			55	107	8	19	21
credit			14	22	4	9	-
profit/loss		-100	171	89	17	92	32
new profit		0	271	-81	-106	109	-64
assets	100	-	271	189	83	192	128
stock/credit			14	2.7	17.5	18	5
stock/va			2.9	.45	5.8	5.8	5
Fixed assets							

Interview 77

Background information

Classification: Capitalist enterprise

Gender: Male

Type: Panel beater

Interviews: July (94), Aug. (94), Sept. (94) , Oct. (94) , Oct. (94) , Nov. (94) , Jan (95) , Jan (95) , Feb. (95).

Age of owners 38

Children: 5 (79, 82, 87, 88, and 92)

Marital status: Married

Occupational biography notes

1957 Born in Ezingolweni on the South Coast.

1969 Left school at standard 2 aged 12.

1969-73 Looked after the cows in the fields. He then moved to town for the work. He stayed with his brothers father in Amoati.

1973-75 He got a job as a garden boy this was his first job.

1976 Met his wife. She has never worked. She has tried sewing to earn some money but there is no money in this.

1976-79 Worked as a plumbers assistant and he worked there until the job closed down.

1979 Moved to Bambayi

1980-87 Worked at an office furniture factory in town. But he got the sack after getting into problems with the "boss".

1987-91 Worked for Jacob's Auto-marines who build ships. He did a lot of welding here. During his life he has learnt a lot of skills but he has not received any formal training during this time.

1990-91 First enterprise (PCP) While he was working he started up a enterprise as a panel beater from his home. He bought a number of pieces of second hand machinery through the lay-by scheme. These each took between six and twelve months to repay. He brought a grinder (R150) a generator (R2000), a drill (R129) and a compressor (R1500) from Pointers. Each time he would start with R100 and then continue to pay it when he had money until the amount was paid. Only then could he use that piece of equipment. He also bought on lay-by terms but new a set of gas bottles for welding. He had a total of R4688 in equipment and all of this was second hand equipment. All the other tools they had he bought on cash over time.

He worked at weekends when he had no formal work and mainly he worked on friends' vehicles. He bought a canvas sheet to use as a shelter for his work during this time. He lived off his formal income and invested some of it in the enterprise. He then was able to buy more equipment from the money earned from the new enterprise.

1991-93 Second enterprise (Capitalist) He stopped his formal job in July 1991 and opened up his enterprise as a full time work. He had about R2000 in the bank and he used some of this to invest in materials, oil, petrol, and welding sticks. He started by employing one person. he was paid R150 a month and when there was additional money then he was paid extra money. During this period as the work increased he increased the number working with him from one to three.

There was a lot of work at this time and he was able to save R300 every two months. This contrasted to when he was working and he only had extra money at Christmas when the bonus was given.

1993 In 1993 the violence started again in Bambayi. He had to live in the "bush" and they could not stay in their house. He stopped the enterprise at this time. He moved his equipment to his friend's house in Inanda where it was safe. But he lost the canvas building this was stolen. He had to stop employing the people.

1994 Third enterprise (PCP) Moved to Cato Crest and started the enterprise again. His friend helped him move his equipment to Cato Crest. But here there was little room and he had few customers at the beginning. He estimates that he was only getting an income of maybe R600 a month (does not include costs). His house is small but there is some space for him to work and park the vehicles. The problem is that he has a lot of cars outside (7) and little space to work.

Because he had limited money he had to get the customer to pay for all the parts, materials and paints. This meant that he was only paid for the labour and running costs (gas etc.). This meant he lost a chance to make a profit on material charges. A more serious problem was that most of his customers were short of money. The jobs are therefore stop-go projects in which he can only do the work when the people have the money. This means that some jobs can take six months when they only take a week to complete if he could work full time on them. Finally there is a problem that even when the work is done the customer might delay payments.

Because of the shortage of money he also does some car repair work. He prefers not to do this since there is less money in this kind of work and there are always problems, but he has no choice.

He was given a car by a friend. This car he had to repair but was given in exchange for him repairing another old car that his friend has. He has to do this for free, but he gets a car in exchange.

1994 Fourth enterprise (capitalist) In August he employed one person to work with him. Later he had a second person to work with him. Unfortunately the first person had a drink problem and so he had to stop him working because he was always fighting with the community.

He built up a shelter and car porch on the side of the hill so that he could work in some shade. He was also given another second hand generator by his brother. He was able to repair this machine and then use it.

During this time he also tried to sell chickens by buying 15 and selling them. But he did not think there was any money in this work.

He saves with a bank and has saved in this last enterprise since July 1995 the sum of R1650. He is hoping that if he has enough money he can buy an old car and repair it and re-sell it. The enterprise has started to pick up and more people are coming to ask for repair work. As well as the big jobs he has lots of small jobs from people in Cato Crest, particularly the taxi owners which earn him extra cash. For example in August he had R1800 in income, but he also has a continued problem with credit. He normally has R200 owed to him.

He has in 1995 moved his family back to Bambayi. Although the situation is still not solved there it means that they have more room here. Also if he stays he does not lose the chance to gain a site if development starts this year.

Interview 86

Background information

Classification: Survival enterprise to PCP enterprise
Gender: Female
Type: Spaza shop
Interviews July 94, Sept 94., Jan 95, Feb.95.
Age of owner: 31
Children: 4 (born 1982, 1985, 1987, and 1993)
Marital status Boyfriend killed

Occupational biography notes

1963 Born in Durban.

1979 Went to school until 1979 (age 16), but did not get any grades.

1979-92 First enterprise (Survival) Started making wool jerseys with her mother. Initially trained by her mother to do this work. She carried on doing this work intermittently until her mother died in 1992. Her mother was self employed doing this. When ever they had a shop the children would do the selling. The enterprise was good and they sold the clothes mainly in the rural area. They had a stock of R150 most times. Most sales were part cash part credit and this money was collected in the next month. They had two knitting machines for the work and both of these were paid for by cash.

1981 Trained by M & R in sewing skills. Received a certificate, but it did not cost anything to do the course.

1982-84 Second enterprise (PCP) Started a spaza shop in Ntuzuma. They had rented a place there. She started with R200 that had been borrowed from her relatives. They used part of the rented house for a shop. This was a good enterprise and they sold all sorts of goods including beer and soft drinks.

The problem was that the owner of the property became jealous of them and put the rent up for the house. They decided that it was best to move to an informal settlement.

1984-85 Third enterprise (PCP) Moved to a different place, but still in Ntuzuma, but they owned this new place and so had no rent.

There was no problem until the violence. The violence destroyed the enterprise and they lost all the money. Her boyfriend was also killed during this period. One night she was at the church for a vigil and when she came back in the morning the house had been burnt down. The house and spaza were together and everything was destroyed.

1985-91 Moved to the rural areas to her farm and stayed there with her grandfather. Probably had two kids during this time and brought up her children.

1991 Worked in Pinetown as a waitress for eight months.

1992-93 Stayed 18 months living at Durban station. She came back to Durban station because she had heard a rumour that Spoornet was planning to build houses for all the people living in the station. But they did not.

Fourth enterprise (PCP) She lived in a temporary shelter in the station and sold fruit and vegetables there. She also later sold ladies dresses, duvets and 25 litre containers. They lived and sold from the same place. She started with only R30 from her grandfather for the enterprise. The enterprise did well and she was able to build up a stock of about R400 by the time she left. She said she had to leave this enterprise because she had a disagreement with the other people in the market about the price to charge for the goods.

Research period

1994-95 Fifth enterprise (survival to PCP enterprise) Moved to Cato Crest and started the shop with R300 which was all from the profit from her previous enterprise. The enterprise has a good location near the taxi rank where there are a lot of customers. The enterprise premises are different from the her house premises which are behind the shop. This means that she has to empty her stock each day and take it back to her house.

In Cato Crest she sells at the taxi rank in the morning and then from 10 am to 10.30 and from 12 to 1 pm she sells up at the Phambili school. She sells fruit, drinks, sandwiches and juices there. There are 8 ladies who sell at the school and they can sell what they like. She estimates that she sells between R50 and R100 a day. She has a stock of between R60 and R100 most days.

When she is away either buying stock or selling at the school she gets one of her children to look after the stock or a friend. In other cases she has to stop the shop for that period. She could not afford to pay someone to work in the shop.

The enterprise has gone up and down. Some months there is very little stock while other times there is a lot of stock to sell.

She sometimes buys stock from Macro and then she borrows a Macro card to get the stock. In other cases she buys fruit from the market and from the Spar shop near Cato Crest.

Interview 126**Classification:** Capitalist enterprise**Gender:** Male**Type:** Spaza shop**Interviews:** Aug. (94), Aug. (94) , Sept. (94) , Oct. (94) , Oct. (94), Oct. (94), dec. (94), Jan. (95) , Feb. (95) , Feb (95).**Age of owner:** 46**Children:** 14**Marital status:** Married (various)**Occupational biography notes**

1949 Born in Mzintu on the South Coast.

1950 Moved to Durban and went to school until 1965.

1958 Lived in Durban until the Group Areas act meant he had to move back to Mzintu.

1965 After leaving school he moved with his brothers to work in town. They had to work initially for one year as a domestic, but Msome worked for eleven years with the same family.

1965-76 He worked for 11 years for this one family. The man's wife became ill and Msome was asked to look after her and to drive for the family. They taught him to drive.

He became a nurse/chauffeur and everything for the wife while she was ill. He stayed with the family and lived with them during this period.

1976-86 Had a job at Mcords Hospital as a driver for the patients.

1985 First enterprise (capitalist) He bought a 2nd hand combi van for use as a taxi. It cost about R7000 and was bought with his savings from his work. He employed a man to drive for him since he was working at that time.1986-88 Second enterprise (PCP) He left the job and worked driving the van in Chesterville at a taxi. He joined the CTA.

1988 He sold the first van and bought another van with finance from Stannic Bank. He paid a deposit of R3000 and then borrowed a sum of R8000 which after charges cost him R11,000.

In 1988 the violence started in Chesterville and there was little travelling in and out of Chesterville during this time. Because of this violence there was no work for the van and he was therefore unable to pay his instalments. As a result his van was re-possessed at this time.

1989 Third enterprise (PCP) In October he had his 'bit of luck'. A man he knew had a problem with paying his instalments on his van and came to Msome. He was behind on his repayments by over R2500 and so he asked Msome to pay this amount to the bank and

then buy the taxi by paying him R10,000. The total amount still outstanding at this point was R21,000 but Msome would be the owner of the taxi. The man thought Msome had lots of money.

He had some help with the people at the bank (the cashiers) who pretended that he had lost of money in the bank and he was able by borrowing from friends to make an initial payment of R2500 which was the amount that the man was behind on his repayments and then he paid the R10000 to the man over the next six weeks and was therefore able to buy the vehicle. He was able to buy much of this money by 'working the van very hard over this six week period'.

1990 Fourth enterprise (capitalist) He had three taxis by this time. He bought two second hand taxis for R14,000 and R6000. But he decided at this time to sell the taxi that was still on instalments. He operated the enterprise from Chesterville and employed a driver for one of the cars and he drove the other.

1991 He built a house in Cato Crest, but at this time he still stayed in Chesterville. He had someone living in this house until he decided to move to CC.

1992 Fifth enterprise (PCP) He started a spaza shop in Cato Crest at his house. He started with R800 that had been saved from the taxi enterprise.

1992 Sixth enterprise (capitalist) He bought two sewing machines and employed two ladies to make and sell clothes. But after two months he stopped this because he said it was not earning him any money.

1992-95 Seventh enterprise (capitalist). He operated two taxis in Cato Crest and employed two drivers. In 1994 his van was stolen and so he had only one taxi to operate. During this time he would sometimes drive the vans to check on the money earned from the taxis.

1993 Eight enterprise (PCP) Started a second spaza shop which his wife runs.

1993-95 Nine enterprise (capitalist) Developed the spaza shop and employed a lady to work in the enterprise. He had two people employed at one stage and then reduced it to one person as he became more involved in the enterprise.

He bought two refrigerators one on instalment and the second a second hand refrigerator used with ice. He also had furniture which was also bought on instalments.

He has used a bank for his savings and has had a bank account since the time he was working.

In 1994 he was able to get a loan from IBEC for R5000 for his enterprise. He got this for the spaza shop but has used it for both this and the taxi enterprise.

He built a new shop which cost about R3000 to build and this was separate from his house but next to it. He has a good location and has a lot of customers.

Research period

He has a very big family with 14 children and four wives. This has put a lot of pressure on him at Christmas since he has to spend a lot on Christmas and on their schools. He is the only one working in the family at the moment.

He gives a lot of credit to people. He has about 15-20 customers who he gives credit to. Each on average owes him R75 and this is normally paid at the end of the month. Although some people are late paying at Christmas, afterwards they all repay. He also charges them additional money for the goods they buy on credit which provides him with some compensation.

He also acts as a collection point for batteries in the area. This earns him 5 cents per battery he handles.

Information on financial details from semi-structured interviews

Interview dates	1992	30/9	30/10	1/12	23/1	13/2
Stock	800	3159	1885	1764	1817	1848
cash		549	290	240	295	700
credit		1508	1950	1327	2138	1519
assets	1800	18137	17546	17986	13538	11067
% assets	0.44	0.17	0.1	0.1	0.13	0.16
stock/credit		2	0.96	1.3	0.85	1.2
stock/VA		1.5	0.84	1.1	0.74	0.83
fixed assets	1000	7100	7100	7100	3500	3500
ratio F/V	1.25	0.64	0.67	0.65	0.34	0.46
Profit		9517	(590)	1206	(3759)	(2394)
Total profit		9517	8927	10133	6374	3980
loan		6820	6820	6054	5288	5288
Bank account		5820	6320	7554	3788	3500

	Turnover	Expenses at Macro	Margin
Nov. 93	18908		
Dec. 93	26101		
Jan 94	24110		
Feb. 94	23248		
Mar 94	26290		
Apr 94	23986		
May 94	22416		
Jun. 94	21509		
Jul. 94	28827		
Aug. 94	21901		
Sept. 94	23421		
Oct. 94	28304	22056	6248
Nov. 94	28352	21047	7305
Dec. 94	29237	13536	15701
Jan 95	26794	11243	15551

Interview 128**Background information****Classification:** Capitalist enterprise**Gender:** Male**Type:** Shoe repair**Interviews:** Aug. (94) , Sept. (94) , Sept. (94) , Oct. (94) , Nov. (94) , Jan. (95) , Feb. (95).**Age of owner:** 23**Children:** none**Marital status:** Single

1972 Born in Grey Town near Ptzm in 1972.

1993 Went to school until standard 8 before leaving school.

1993 Came to Durban and got a job in a construction firm for three weeks.

1993 Worked for six months in Seaview with a subcontracting painting firm doing the preparation work. Stopped this in July 93.

Remainder of 1993 he had no job and stayed in Cato Crest. His brother-in law helped him with some food in this period. He also did some odd jobs for the neighbours to earn a little money for cigarettes.

1993 First enterprise (survival) He bought this from his family and he had and tried to make a enterprise taking pictures and selling them to people in Cato Crest. He made pictures at a charge of R3 each, but there was a problem with people not paying for the pictures. It cost him R44 for making a set of pictures and his profit was R28 but many times he had to pay for the cost of the film and materials and they did not collect the film and therefore he lost out.

1994 Got a job again in Seaview for 4 months and then stopped for two months.

1994 Second enterprise (PCP) he went back to Seaview to collect R150 that was owed to him and with that money he spent R76 in getting some equipment for his enterprise to start up. He collected from the bush some materials for the shop and then built it by the road. He spent R28 on materials for the enterprise buying thread, blue and leather. Customers started and he began the enterprise

Research period

1994 Third enterprise (capitalist) He employed someone to work with him. He was not paid a salary but rather he was paid for each job he did.

1995 Started again the job in Seaview again in January but he does not know how long the job will last. He is paid R20 a day but it costs him R4 for transport and then he has to buy food. He only has enough money for to survive. Last week he was late by 10 minutes due to the bus and he lost half a day's wages. He has worked 10 months for the company

over 2 years but all is temporary work and he does not know how long he will be there for.

He has never been able to save money because he is always struggling to survive. He has a very small one room house for himself and his girlfriend.

The enterprise went up well to start with and he built up the stock to over R900 in the first three months. But the problem is the credit. This gradually increased over the months and by December 94 he was owed R600 by 100 customers for work he had done. The problem is that although he has charged people some money for the materials he is getting no money for his labour. He does not want to try and sell the shoes to get back some of the money because he fears that the people might become angry towards him.

He also tried to sell a few other goods such as batteries, new shoes and wallets. But again as he got into problems with the credit he did not have enough money to buy new stock. One white man gave him credit for selling his shoes but this was only for a few shoes.

As a result his stock gradually became less and dropped from about R500 to R40 which is where he had started from. He has wanted to stop a number of times because he was not getting any benefit, but could not find any other work to do.

1995 He employs a guy from the family to work in the enterprise while he is away. But he pays him only a little money at the moment since he is a relative. They give him board and lodging with them and he has come from the rural area. He is the brother of his sister.

There are 4 full time people in this company and then they employ 14 people on a temporary basis.

1995 The work has stopped and so he is back working in the enterprise and works there alone. He is hoping to find work again.

Interview 142

Background information

Classification: Capitalist enterprise
Gender: Male
Type: Spaza shop
Interview: Aug. (94), Aug. (94) , Sept. (94) , Oct. (94), Nov. (94), Jan, (95) Feb. (95).
Age of owner: 38
Children: 1 (Born in 1994)
Marital status: Single

Occupational biography notes

1957 Born in Sweetwaters (Near Pietermaritsburg) at Edendale hospital.

1973 Went to school there until at the age of 16; he left having reached standard 3.

1974 Moved to Brighton beach and worked one year as a garden boy.

1974 Moved To Umlazi and rented a place there.

1975-93 Got a formal job with Hacke Rank as a welder. He worked there for 18 years until the company stopped in 1993. He is still hoping that he will get some compensation for the time he worked there but he is still waiting.

1993 Moved to Cato Crest because his house in Umlazi was too crowded with his other brothers and there was more room in Cato Crest.

1993 First enterprise (partnership) He started the first enterprise with money from his savings from his old employment. He bought 50 cases of beer with his friend. They each bought 25 cases. This cost in terms of the empty bottles about R165 and for the full bottles R625. The brother of the friend had a van that could do the transporting and so they thought they could make money from this enterprise. He also had bought a second hand refrigerator (R800) which he had bought with his savings and they could then sell loose beers as well as cases from the house. They started the enterprise in November 93, but unfortunately the friend was found to have TB and so had to go to Pietermaritsburg with his car. He died there later. This put up the cost of the cases and at the same time his friend decided to leave and go to University to study. They therefore decided to stop the enterprise since there was going to be little money in the enterprise.

1993-94 Second enterprise (PCP) He decided to then sell chickens and started In December 93. He bought 40 chickens at R5 each (i.e. stock of R200) and sold them for R15 each. But again the transport costs were high and so he stopped it in 94.

1994 Third enterprise (PCP) Started this enterprise in March 94 and began to build a separate shop for the enterprise. he spent R350 on the building and R600 on stock to start up. He used the money from the old enterprise and also the refrigerator from the house he brought to this place.

His wife worked in the enterprise during this time, until she became pregnant. Then her sister worked in the shop while she delivered the baby. She came back for a while to work in the enterprise until his wife found a temporary job in Sweetwater and she decided to stay until then.

He belongs to a stokvel with nine other members. They each contribute R30 each week and every two weeks the money is used to buy stock in bulk in the wholesalers. This is then divided among the group. This way they get a discount on their food purchases.

1994-95 Fourth Enterprise (capitalist) He employed a boy to work in the enterprise to run the shop.

He still gets an employment card and he lived off this money each month for food. He also gets a pension fund contribution which supplements his income.

His father died in a bus accident in December 94. Because his brother had two children at college he had to spend his money to pay for the funeral. He took all his money from the enterprise and all his savings and spent this on the funeral. He has been given his fathers old car and may use this for the enterprise. The money used has wiped away all his savings from both his old work and money he had saved from the enterprise since it had started.

He buys stock from a wholesaler and it varies how much he will buy. It seems he does one big shop each month and then smaller shops each week.

Information on financial details from semi-structured interviews

Interview dates	3/94	8/94	9/94	10/94	11/94	1/95
stock	582	545	439	466	588	248
cash	-	497	400	97	45	60
credit	-	47	-	72	82	-
assets	1532	2039	1789	1720	1780	1393
% assets	38%	27%	24%	27%	33%	17%
stock/credit	-	11.5	-	6.4	7.1	-
stock/VA	-	1	1.1	2.75	4.6	4.1
fixed assets	950	950	950	1085	1085	1085
ratio F/V	1.6	0.87	1.1	1.7	1.56	3.5
Profits		507	(252)	(66)	79	(406)
total profit		507	255	189	268	(138)
bank account		700	3000	-	-	0

Appendix 2: Semi-structured interview checklists and questionnaires

Initial checklist

(used on initial interview to micro-enterprise owners in June-July 1994)

General information

- Name of owner
- Type of enterprise
- Gender of owner
- Date of interview
- Code number for micro-enterprise owner

Checklist of topics to cover

- age of enterprise
- growth of capital and assets
- start up capital
- present capital and value of the enterprise (approx.)
- savings and stokvels
- other jobs
- credit given and amounts
- credit received
- family size and employment by household members (including pensions and grants)
- skills and experiences in the past
- number of children at school
- English spoken
- acts of god etc.
- assessment of management of the enterprise by the person
- competition who from and impact on enterprise
- family who work in the enterprise
- employed labour, who and how much they are paid
- hire purchase
- second hand goods used
- buildings, separate or house and assessment of condition

Second checklist

(used for later interviews between first interview and survey at the end of the research period)

General information

- name
- family size
- who runs the enterprise and amount of time spent in the enterprise by each member
- type of enterprise
- past business
- area of Cato Crest
- age of family members
- how long enterprise has been operating
- dates of all enterprise start ups
- moves from and in Cato Crest
- Past employment (full time and casual)
- other family members employed

Observations on the enterprise

- appearance
- description of location and premises
- type of building material used
- customers
- extension of property
- rumours and conversation from other community members

Financial needs

- starting capital (amount and date and what used for)
- present capital (could include stock and advice on enterprise)
- turnover/month or week (look at receipts if possible)
- fixed investments (age value, length of time they will last)
- buildings (investment cost and when built)
- stock levels
- estimated profit (if possible)

Type of own finance

(a) Savings

- where from
- other sources of income (past and present)
- re-investable profit (use balance sheet to check)
- how profits reinvested
- how saved and who saved in the household

(b) Equity

- who owns the enterprise
- partnerships
- advantages and disadvantages of partnerships

(c) Credit used

- moneylenders
- trade credit (given or received)
- family credit
- employer credit
- pawnshops
- banks
- formal credit agencies
- hire purchase

Information in each area should include

- amount
- interest
- length of loan
- how received
- problems in getting loans
- what guarantees
- problem in repayments
- additional costs
- length of time in getting loan
- number of visits, costs etc. to get loan
- what type of credit tried
- why have you not get credit

Growth and decline in micro-enterprises

- is the business growing
- why growing, and how growing
- drawing of number of balance sheets

Finance reducing measures

- stage of growth
- renting
- second hand equipment
- fast turnover of goods
- street or home based
- family labour
- construction of building
- credit used

Questionnaires

Micro-enterprise survey questionnaire

Interview number..... Name

Owner: male female..... age family size..... ages of children.....

Business type

.....

1. Type of employment in business: Paid..... Amount.....

family.....children.....own.....

Business activity -accumulation (last 8 months).....

-fast turnover %.....Name.....

-slow turnover %.....Name.....

Wholesaler.....name.....card.....cost.....amount spent.....

Market.....town.....Spar.....CC.....amount spent.....

Times to visit /week. Wholesaler.....CC.....Market.....

3. Observations

-building.....

-separate building.....table.....door to door.....cost.....

-signs (number).....Type.....

4. Start up Amount.....Date.....

Use of savings full time..... redundancy..... domestic.....

temp..... IS..... pension..... illegal.....

family credit..... family..... husband..... friend.....

5. Hire Purchase amount.....Date.....Describe.....

- Where.....
- What.....
- Any difficulties in getting credit.....
6. Loan.....Where.....
7. Do you know where to get a loan.....Where.....
- Why do you not get a loan.....
8. Do you get trade credit.....
9. Have you used lay-by scheme.....when.....how uch.....what.....
10. Do you know any businesses that are owned by someone.....
- Describe.....
11. First IS employment.....
12. Previous IS employment.....What.....dates.....What.....dates.....
- what.....date..... what.....date..... whatdate.....
- Age of present business.....
13. What since 1994.....
14. Credit..... amount.....Monthly.....weekly.....bad debt.....
15. 2nd hand equipment.....cost.....
16. Bank account.....amount.....Postoffice.....amount.....stokvel.....amount.....
- save..... why not.....
17. rural income.....donate to rural area.....
18. children at school.....local.....rural.....bus fare/week.....other costs.....
19. owner employed.....full time.....temp.....Doom.....IS.....Dependent.....
20. Other family employment. Full time.....temp.....Dom.....IS.....Family members
- unemployed..... no full time employed.....no employed other.....

Stokvel survey questionnaire

Name.....Age.....Gender.....Employment.....
.....

1. Number of members.....Men..... Women.....

2. Location.....

3. Number of members in Cato Crest.....

4. Proportion or number working full time.....Temporary..... Business..... Pension.....

Domestic.....Unemployed.....

5. Amount saved by interviewee...../..... Average amount saved by member...../.....

6. Number of previous stokvel. being involved with

Where saved.....

7. USAGE OF STOKVEL MONEY (interviewee)

Amount saved each year.....

	Amount	(or)	Proportion	Example
Christmas
School
Business
Saved for next year.....
Other
Housing

8. TYPE OF STOKVEL

Whole year save..... Bulk buy..... Rotate each year..... Other.....

.....

9. LENDING TYPE

Just saving

Borrow by member just for own use.

members borrow to lend to other non members

group decision to lend to non members

Other.....
.....

Interest rate..... Loan size..... average length.....

Purpose (a)Business..... (b)illness etc..... (c)Food.....

Problem repaying..... fines or how you get them to repay.....

Appendix 3: Summary of results of survey of enterprises in Cato Crest

	Capitalist enterprise remaining	Survival enterprise remaining	PCP remaining	Capitalist enterprise to PCP	PCP to capitalist enterprise	Survival enterprise to PCP	Business stopping
Number	16	42	33	7	9	13	16
Household size	4.6	5.4	5.3	3	6.7	4.7	5.2
Adults	2.4	2.6	2.8	2.1	4.2	2.5	2.9
21-40 age	7 (47%)	25 (60%)	22 (67%)	5 (71%)	8 (88%)	11 (84%)	13 (87%)
Mean age of business	22 m	18 m	26 m	13 m	18 m	15 m	17 m
Bank account	13 (73%) n=15	13 (38%) n=34	23 (72%) n=32	6 (87%)	8 (89%)	9 (69%)	6 (42%) n=13
Separate building	11 (73%)	6 (14%)	13 (39%)	4 (57%)	7 (78%)	8 (61%)	3 (19%)
Home operated	3 (26%)	19 (45%)	14 (42%)	3 (43%)	2 (22%)	5 (39%)	10 (62%)
Buy from wholesale	8 (50%)	1 (2%)	11 (33%)	2 (28%)	4 (44%)	5 (38%)	2 (12%)
Retail	10 (62%)	34 (81%)	22 (67%)	6 (86%)	5 (56%)	9 (70%)	11 (69%)
Mixed enterprise	-	5 (12%)	5 (15%)	-	3 (33%)	2 (15%)	1 (6%)
Change in enterprise	4 (25%)	10 (24%)	5 (15%)	1 (14%)	4 (44%)	6 (46%)	2 (12%)
Credit given	5 (33%)	23 (59%) n=39	25 (76%)	4 (57%)	8 (89%)	10 (77%)	7 (50%) n=14
Full time in household (av)	0.4	0.5	0.6	0.6	0.7	0.5	0.5
Unemployed in household (av)	0.7	0.8	1.4	2.1	1.9	0.8	1.2
Others employed (av)	0.85	0.6	0.3	0.2	0.8	0.4	0.9
Partnerships	-	1 (2%)	2 (6%)	-	-	3 (23%)	-
First business	5 (33%)	18 (45%) n=40	12 (38%) n=32	2 (29%)	3 (33%)	3 (23%)	9 (56%)
Male owners	13 (81%)	11 (26%)	18 (55%)	6 (86%)	5 (56%)	6 (46%)	4 (25%)
Hire purchase	11 (73%) n=15	3 (7%)	10 (31%) n=32	3 (43%)	3 (33%)	2 (15%)	4 (25%)
Rural children (av)	2.1 n=14	1.1	1.4 n=31	3.1	1.4	1.5	1 n=12
Number of enterprises	1.9	0.9	1	1.1	1.6	0.9	0.75
Save	12 (92%) n=13	15 (47%) n=32	23 (72%) n=32	5 (87%) n=6	9 (100%)	9 (69%)	7 (54%) n=13
Start up capital (av)	R710	R90	R500	R940	R430	R70	R460
Source start up full time work	2 (12%)	3 (7%)	6 (18%)	4 (57%)	4 (44%)	2 (15%)	1 (6%)
Source start up informal sector	8 (50%)	10 (24%)	5 (15%)	1 (14%)	2 (22%)	2 (15%)	2 (12%)
Source start up temporary work	1 (6%)	10 (24%)	10 (30%)	2 (29%)	1 (11%)	3 (23%)	6 (38)
Source start up household	5 (31%)	15 (36%)	6 (18%)	-	1 (11%)	5 (38%)	7 (43%)
Stokvels	4 (28%) n=14	11 (31%) n=35	16 (52%) n=31	2 (29%)	5 (56%)	8 (61%)	4 (31%) n=13
Turnover (av)	R1428 n=11	R157 n=33	R480 n=31	R1240	R1328 n=8	R388	R250 n=9
Joint enterprises	1 (6%)	5 (12%)	5 (15%)	-	-	3 (23%)	1 (6%)
Businesses not affected by violence	5 (45%) n=11	12 (36%) n=33	10 (34%) n=27	5 (83%) n=6	4 (57%) n=7	5 (62%) n=8	4 (40%) n=10
Use second hand equipment	6 (43%) n=14	6 (16%) n=38	11 (33%)	5 (71%)	7 (78%)	4 (31%)	5 (31%)